Accountancy

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Professional Notes

Britain's International Accounts

OUR BALANCE OF PAYMENTS ON CURRENT ACCOUNT WAS MORE UNFAVOURABLE IN 1952 than in any year since 1947. There was an adverse balance on visible trade of £789 million but a favourable balance on the invisible items of £268 million. The net deficit of £521 million was financed in the following way:

	£ million
Decrease in gold and dollar reserves	344
Increase in sterling liabilities	336
Grants received (net)	43
	723
Less investment abroad (net)	202
	521

The increased difficulty of financing a deficit on current account may be seen by examining the probable trend of each of the main items in this list. Thus the increase in sterling liabilities in 1951 consisted as to £246 million of a debit with the European Payments Union—in the previous year the debit with the Union and its predecessors (taking account of our initial contribution to the Union) was only £25 million—and there is a fairly low ceiling to the total of the debit we can have entered against us in the Union's books. That part of the increase in sterling liabilities accounted for by increased indebtedness to the sterling area, and represented largely by deposits in London of gold and dollars earned by the area in transactions with dollar countries, was only £57 million last year (but in 1950 it was £379 million). An appreciable increase over the 1951 figure can now be expected only if the sterling area countries again sell primary products at higher prices and in larger volume to the United States, and there is little immediate expectation of this happening in very pronounced fashion. Grants received amounted to the very low net total of £43 million in 1951 because of the virtual cessation of Marshall Aid (in 1950 we received from that source grants of £248 million) and although some assistance for defence expenditure will probably be forthcoming from the U.S.A. its amount will not be large. Finally, our net investment abroad, which totalled £202 million in 1951, in comparison with only £26 million in 1950, though it may decline this year, is hardly likely to approach the low level of 1950.

Thus, it is extremely difficult for us to finance a current deficit without a further decrease in the reserves of gold and dollars. Even if this country were willing to continue to import goods and services of a far larger value than it can pay for by the export of goods and services, and to have the excess financed by incurring indebtedness to foreigners and the sterling area and by receiving grants from the U.S.A., it could not do so, but would have to send abroad gold and dollars, of which it is dangerously short, despite the recent slight improvement in the reserves. Thus the wiping-out of the adverse balance on current account is not only desirable; it is imperative. Unfortunately, it is to be questioned whether the quite drastic steps taken by the Government to bring the current account into equilibrium have been drastic enough.

The Society's Annual Meeting

Members of the Society of Incorporated Accountants will again—after an interval of eight years—meet at Incorporated Accountants' Hall for their annual general meeting, on Wednesday, May 21, at 2.30 p.m. The chair will be occupied by the President of the Society, Mr. C. Percy Barrowcliff, F.S.A.A. A report of the proceedings will appear in our next issue.

The meeting will be followed at approximately 3.30 p.m. by the annual meeting of subscribers and donors to the Incorporated Accountants' Benevolent Fund, under the chairmanship of Sir Thomas Keens, D.L., F.S.A.A., President of the Fund.

What is a Reasonable Rent?—

The decision of the Court of Appeal in *John Kay, Ltd.* v. *Trustees of the Kay Children's Trust* (so far unreported) clearly indicates that the criteria for determining the reasonable rent under an extended tenancy of shop premises granted under the Leasehold Property Act, 1951, are different from those which would apply where a new lease is to be granted under the Landlord and Tenant Act, 1927. Under the 1927 Act, the rent must be the open market rent, but without taking into account any increase for goodwill created. For the purposes of the 1951 Act, something less than the market rent can be a reasonable rent, since the burden of inflation caused by the shortage of accommodation is not to be wholly cast upon the tenant. At the same time the tenant cannot expect to be allowed to continue at a low and uneconomic rent hitherto payable under his expiring tenancy, a rent which usually will have been fixed several years ago, and will bear no relation to the changed conditions of modern times. In the case quoted—we commented on the decision in the lower Court on pages 53-4 of our issue of February 1952—a rent of £550 per annum was considered to be a reasonable rent under an extension of a tenancy originally granted at a rent of £160 per annum, notwithstanding that the landlord was in a position to obtain a rental of £750 per annum plus a premium of £1,500 for a 21-year lease.

—And What is "Greater Hardship"?

The decision in the *Kay* case, moreover, affords some guidance on the question of greater hardship on an extension of a tenancy under the Leasehold Property Act, 1951. The onus of proof, be it observed, is in this case on the landlord, and not on the tenant, as it is under the Rent Acts. And for this purpose, the fact that the landlord might suffer some financial loss in being unable, if an extension were granted, to let the premises at a higher rental to a third person, is not sufficient to turn the scales in his favour. Nor is the fact that the tenant can only trade at a loss during the period of the extension, because of the increased rent fixed by the Court; for this is a matter which more particularly concerns the tenant, who is in a better position than the landlord, or indeed the Court, to judge whether it is worth his while to continue the tenancy on those terms. It would also appear from this case that a landlord will find it difficult to take advantage of any breach of covenant by a tenant, if in fact he is not seriously prejudiced thereby. The fact that in this case the property had not been kept in repair by the tenant did not disentitle him to an extension, inasmuch as there had been an offer to execute urgent repairs immediately, and the financial position of the tenant was strong, so that the landlord could effectively pursue his legal remedies against the tenant in respect of the past or even future breaches.

The Irish Budget

The Irish Minister of Finance, Mr. McEntee, introduced his Budget in the Dáil early last month.

The estimated expenditure for the fiscal year 1952-53 is the highest since the State was formed. It amounts to £101·7 million for current services and £35 million for capital services.

The Minister proposed that subsidies on flour, bread, tea, sugar and butter should end about the middle of 1952, when rationing will also cease. The Exchequer will save some £6·7 million, but prices of foodstuffs will rise drastically. To compensate the lower paid workers, there are to be increases in unemployment assistance, old age pensions and children allowances.

Taxes on cigarettes and tobacco, beer, stout, spirits, petrol and oil have been raised. The tax on motor vehicles will be increased in the near future.

The Minister proposes to raise the standard rate of income tax from 6s. 6d. to 7s. 6d. in the £, but the earned income allowance will now be one quarter of the first £800 of earned income, and one-fifth of earned income over that figure, with a maximum allowance of £400, compared with the previous maximum of £300. The reduced rate relief is to be revised so that the first £100 of taxable income will be charged at 3s. and the next £100 at 6s. Previously the relief was on the first £100 at half the standard rate. The dependent relative allowance of £50 will now apply where the relative's income is not more than £80 a year.

In case any taxpayer feels like a dance after reading the Budget provisions, the tax on dancing is abolished.

The "Profits Test" and Shopkeepers' Protection

Where a number of activities are carried on, some of which are in the nature of a retail trade, while others are not, can the premises be regarded as being occupied wholly or mainly for the purposes of a retail trade or business, so as to constitute a "shop" for the purpose of the Leasehold Property (Temporary Provisions) Act, 1951, and thus to qualify for the security of tenure provided by the Act? And what is the proper test to be applied?

This problem was considered by the Court of Appeal in what is believed to be the first reported appeal (*Bertheleny* v. *Neale* (1952, 1 A.E.R. 437)).

The tenant carried on a number of activities, most of which were of a processing and wholesale character such as resilvering, smoothing, and scaling thermometer scales and cutting handbag mirrors. The products were mainly sold wholesale, though to some small extent retail sales were made direct to the public. Regarded, therefore, from the point of view of turnover and profits, the non-retail activities were very much greater than the small amount of retail business done. At the same time, every part of the space of the premises could be regarded as being equally given over to the retail side of the business, since it could not be predicted in advance that any article produced would not later be the subject of a retail sale. The Court of Appeal considered that "the relative incomes gained by the different activities con-

ducted on the premises" formed a primary test, though not necessarily an exclusive one, and that the "spatial" test was to be rejected.

No doubt the strict application of the "profits" test might in some cases lead to incongruous results. The case was instanced of a retail tobacconist conducting at the same time a commission agent's business over the telephone installed in a telephone booth on the premises. In such a case if his profits from the commission agent's business just exceeded his profits from the tobacconist's business, then according to the "profits" test, the tobacconist's shop would not be a "shop" at all for the purposes of the Leasehold Property (Temporary Provisions) Act, 1951! But as the Court of Appeal pointed out, "the answer was to be supplied by common sense lines."

The law cannot be logically perfect; otherwise it might become an exact science. General principles must be established, and where in any particular case too rigid an application of a principle leads to extravagant results, common sense, as the Court of Appeal has said, should prevail.

Licensing of Imports—Accountants' Certificates

Certain goods, which were imported freely under "open general licences" until the cuts in imports made by the Chancellor of the Exchequer in November and March last, have now to be specifically licensed for import. The Board of Trade have just announced the arrangements for issuing specific licences for the second half of 1952.

Applications have to be made to the Board on Form I.L.B./A (Revised) or, for typewriters and cash registers, on Form I.L.B. Machinery. With them, there must be sent a statement of the trader's imports during the period from November 1, 1950, to October 31, 1951, expressed in pounds sterling on a c.i.f. basis. With a few stated exceptions, only imports which were paid for directly by the applicant are to be included. The statement is as follows:

During the period November 1, 1950, to October 31, 1951, we imported.....(insert commodity)..... to the value of £..... c.i.f. from.....(insert names of countries)... These goods were paid for by us direct to the overseas suppliers.

This statement has to be certified by an "independent practising accountant."

For certain of the goods, for which "open general licences" were revoked in March, specific import licences will be issued for the period up to June 30, 1952, but their value will be deducted from the trader's share of the quota of imports for the second half of the year. Applications for these licences (on Form I.L.B./A (Revised)) must be accompanied by a statement, in the same form as that referred to in the previous paragraph, of the trader's imports during the two months May 1951 and June 1951. This statement, again, must be certified by an "independent practising accountant."

Rating Site Values

Nearly five years have elapsed since the Interdepartmental Committee on the Rating of Site Values was set up to consider the desirability of meeting part of local expenditure by an additional rate on site values. The passing of the Town and Country Planning Act, 1947, complicated the original proposals, by confiscating the development values of land which the advocates of site value rating wished to assess. It is not surprising, therefore, that in the committee's report, *The Rating of Site Values*, submitted last month to the Government, the majority of the committee opposed the adoption of any system of site value rating.

The committee was not unanimous in its recommendations. A minority held the view that the transfer of development values to the State did not invalidate the principle of site value rating. In cases where the unrestricted value of a site (including agricultural land) exceeds the existing use value, it suggests that the Crown should bear the rate on the excess. In view, however, of the many impracticabilities referred to by the committee it is unlikely that site value rating will have any support from the Government. Copies of the report can be obtained from Her Majesty's Stationery Office, price 5s. net.

Shorter Notes

Mr. E. H. S. Marker

Mr. E. H. S. Marker, C.B., has retired from his office as Under-Secretary of the Board of Trade, where he was head of the Insurance and Companies Department and the Bankruptcy Department. He did much good work leading up to the introduction of the Companies Acts of 1947 and 1948, and was appointed chairman of the Companies Consultative Committee, of which he continues a member. Mr. Marker's many friends in the Society of Incorporated Accountants and in the accountancy profession generally will wish him a very happy and long retirement. Only last month we had pleasure in reproducing (pages 132-3) the substance of an address on the Companies Act in operation which Mr. Marker had given to Incorporated Accountants in London.

Transport Arbitration

In applications to the Transport Arbitration Tribunal for confirmation of agreements on the amount of compensation under Section 108 of the Transport Act, 1947, the statement served by the applicant upon the respondent by Rule 18 is to contain an allegation, in the terms of Section 108 (2), of the grounds upon which confirmation of the agreement is sought (Practice Direction No. 3). The direction does not apply to Scottish proceedings.

Sir Archibald Forbes

Sir Archibald Forbes, the retiring President of the Federation of British Industries, was last month unanimously elected for a second year of office. Sir Archibald, who is an executive director of *Spillers, Ltd.*, flour millers, and chairman of the *Debenture Corporation*, served articles with Thomson McLintock & Co., Chartered Accountants, and became a partner in the firm, resigning in 1935 to enter industry.

Prewar Debts by Germans

In our issue of December 1951 (page 449) we gave the purport of an Order-in-Council regulating the distribution of German enemy property. A new Order now enables claims to be made by the personal representatives of deceased British persons, irrespective of the nationality and residence of the personal representatives themselves, and excludes any claims in respect of a bond, unless made by the bond-owner. The Order is the Distribution of German Enemy Property (No. 2) (Consolidated Amendment) Order, 1952 (S.I. No. 633 of 1952).

International Accounting—Brussels Conference

Two "international days" of professional accountants were held in Brussels on April 26-27. They were held by the *Comité International des Professionnels de la Comptabilité* under the patronage of the *Collège National des Experts Comptables de Belgique*. The working sessions were devoted to international aspects of the accountancy profession and accounting information.

ACCOUNTANCY

FORMERLY THE INCORPORATED ACCOUNTANTS' JOURNAL ESTABLISHED 1889

The Annual Subscription to ACCOUNTANCY *is £1 1s., which includes postage to all parts of the world. The price of a single copy is 2s., postage extra. All communications to be addressed to the Editor, Incorporated Accountants' Hall, Temple Place, Victoria Embankment, London, W.C.2.*

Accounting in Inflation

IT IS NO EXAGGERATION TO SAY THAT the technique of accountancy has reached a really crucial point in its development. Can the procedures which grew up in a period of price stability be left virtually unmodified in a period of inflation?

The business world is in little doubt about the answer. There is a growing sense that the accountant is not reporting correctly upon the earnings of a business unless he takes cognisance, in the depreciation figure and stock usage, of higher replacement price levels—that, by failing to do this, he is overstating profit and condoning, if not causing, a running-down of assets.

We have ourselves for some time past urged that a drastic change in accounting procedures must now be made. We were particularly cheered by the recent announcement that the Society of Incorporated Accountants had instituted an inquiry into the whole issue, and by indications that the recommendations that would result from the inquiry might go a long way in the direction of this change. We recall that as far back as 1944 the Society had instituted an examination of the problem, though it did not make a public pronouncement on what was then an even more controversial subject than it is now. In numerous speeches in the past few months the President of the Society, Mr. C. Percy Barrowcliff, has lent powerful support to what we may perhaps call, without making invidious distinctions, the progressive school of accounting thought.

In these conditions, we had come to hope that Recommendation XII of the Institute of Chartered Accountants, which stands, in effect, as a road block in the path of accounting by replacement costs, would be substantially modified as a result of the review to which it is now being subjected by the Council of the Institute. The evidence of the Institute before the Royal Commission made us rather less hopeful. And as we listened to Sir Harold Howitt, a past-President of the Institute of Chartered Accountants, speaking on the topic at a luncheon meeting of the Incorporated Accountants' London and District Society last month, we felt increasingly that the road block was very firmly lodged indeed.

Sir Harold, whose speech we report on page 180, placed great emphasis upon the differences of opinion on detail among those who advocate the departure from accounting by historical costs. Such differences do admittedly exist, though it seems to us Sir Harold exaggerated them. But even so, the important dividing line is between those who think that only the historical costs of fixed assets and stock should be included as a charge against revenue and those who think that their replacement costs should be so included. Once this particular dividing line—which, cutting across each of the professional bodies, threatens to split accountants into two groups of thought—was erased, there would be no difficulty, we are confident, in resolving the remaining minor differences of procedure.

An argument which is frequently advanced against accounting by replacement costs, that it aims at preserving intact the real assets of the owners of businesses in inflationary conditions—also, be it added, the real assets of the economy as a whole—and that this involves an injustice to other classes who are not protected against inflation, was reiterated by Sir Harold. The argument is not at all convincing. The owners of a business, including equity shareholders, do in fact own a portion of the real assets used in producing the profits of the business: it is this very thing that distinguishes them from other classes, who do not own productive assets. Before the profit of the business is struck, the real assets which have helped to produce it should be kept intact. Otherwise the owners of the business, unlike other classes, suffer a loss of real assets for the sake of magnifying the measure of current income in the production of which the assets have been used—income part of which those other classes enjoy. This *does* involve an injustice between classes and this injustice the change to accounting by replacement costs would remove.

Sir Harold invoked the recent report of a study group of the American Institute of Accountants, issued under the title *Changing Concepts of Business Income*, in support of his case. We hardly think that this report is unequivocal evidence in favour of accounting by historical costs. It concludes that:

> in the longer view methods could, and should, be developed whereby the framework of accounting would be expanded so that the results of activities, measured in units of equal purchasing power, and the effects of changes in value of the monetary unit would be reflected separately in an integrated presentation which would also produce statements of financial position more broadly meaningful than the orthodox balance sheet of today. . . . For the present, it may well be that the primary statements of income should continue to be made on bases now commonly accepted. But corporations whose ownership is widely distributed should be encouraged to furnish information which will facilitate the determination of income measured in units of approximately equal purchasing power, and to provide such information wherever it is practicable to do so as part of the material upon which the independent accountant expresses his opinion.

But since listening to Sir Harold we have read his address at leisure, and it may be that we are too pessimistic about its purport. We see that he was "not for a moment suggesting that the problem does not require further thought" or that "the historical cost method has not serious limitations." He mentioned that his colleagues are not all in general agreement with him on the issues. He was careful to say that he was not forecasting the future of Recommendation XII. Perhaps after all there is still some hope that the road block will be dislodged.

Points in Practice

STOCK VERIFICATION

MANY AUDITORS ARE QUESTIONING HOW far their responsibility should extend in the checking of stock figures. This growing concern in the profession may partly spring from the realisation that American auditors attach much greater importance to this part of the audit. It may partly be the result of a lack of uniformity in practice—a lack of uniformity which must mainly be ascribed to the fact that the auditor's duties have nowhere been defined, and case law has allowed varying procedures. Now that the effect of inventory variances are exaggerated by variable taxes and inflationary trends, can the lack of uniformity be any longer excused by the deficiencies of the Statutes and the blanket authority of case law?

It may well be asked whether it is indeed sufficient to follow the custom, unfortunately quite prevalent, of accepting without any additional check a certificate signed by the managing director or other responsible official of a limited company, purporting to set out the stock value at a given date. The question may not be relevant to businesses, other than limited companies, whose auditors may enjoy powers and carry duties limited by the instructions of their clients, but it is certainly apposite where limited companies are concerned. It may be noted that the Cohen Committee on Company Law Amendment made no attempt to define the auditor's duties, but thought they should be determined in accordance with normal accounting principles. The question is what these principles are, in the particular context of stock verification.

Let us examine briefly, then, whether recent legislation and modern commercial practice demand that the auditor should pay more attention than heretofore to the stock valuation, or whether, on the contrary, simple acceptance of a statement by a responsible official—all that was required by case law in the past—is adequate, in fact as in law. The words " should pay more attention than heretofore to the stock valuation " are chosen advisedly: it is not suggested that there is any case for the auditor's becoming a valuer, or that he should decide the basis for the stock valuation.

The item " stock " is the most important one in the measurement of profit. It is so because all the other items which go to make up the debits and credits of a trading account are normally capable of direct vouching or verification. Stock and its component, work-in-progress, is subject, however, to some unavoidable estimation, either in the costing system for work-in-progress, or in the treatment of possible obsolescence in the stock itself. The argument that " one year's closing stock is the next year's opening stock, and that the net overall result is therefore not affected by an incorrect figure at one date " is true as far as it goes, but it goes only a little way, because the results of a year taken independently need to be stated as accurately as possible, both for the purely domestic purposes of the company and for taxation purposes.

The salient importance of the stock item in determining trading results gives rise to a presumption that the auditor should require something more than an unverified certificate of its value, even though no duty to inquire further is imposed upon him by statute.

The Companies Act of 1948 changed the auditor's position. In Section 147 (2) an attempt was made to define—in negative fashion—what were proper books of account:

> For the purpose of the foregoing sub-Section, proper books of account shall not be deemed to be kept with respect to the matters aforesaid if there are not kept such books as are necessary to give a *true and fair view* of the state of the company's affairs and to explain its transactions. [Our italics.]

This strengthens the auditor's hand, since stock records, which frequently have been the least satisfactory of company records, now attain their correct degree of importance. The crucial words of this sub-Section, words newly introduced with the 1948 Act, are " to give a true and fair view." The sub-Section was not included at all in the corresponding Section (Section 122) of the Companies Act of 1929, and in a corresponding reference, not to the books but to the auditor's report, that Act used the words " true and correct." The inference, presumably, is that " true and *correct* " could be confined to mathematically accurate figures derived from the entries in the books of the company, while " true and *fair* " must surely mean not only that the figures are mathematically correct, but also that the company's accounts, from which the figures are obtained, have been prepared in accordance with sound commercial practice. Hence it is necessary to give as much detailed consideration to the preparation of the stock figure as would be given, say, to the calculations of depreciation of fixed assets. At the same time, the accountant should not be asked to value or to approve a basis for valuation of stock—any more than he is asked to value a parcel of land or a workshop of plant.

An examination of case law decisions with a bearing on the question is useful. The best-known case is probably *In re Kingston Cotton Mills, Ltd.*

In this case Lindley, L.J., said in the course of his judgment:

> The auditors took the entry of stock-in-trade at the beginning of the year from the last preceding balance sheet, and they took the values of the stock-in-trade at the end of the year from the stock journal. . . . The summary was signed by the manager, and the value as shown by it was adopted by the auditors and was inserted as an asset in the balance sheet, but as " per manager's certificate." The summary always corresponded with the accounts summarised, and the auditors ascertained that this was the case. But they did not examine further into the accuracy of the accounts summarised. The auditors did not profess to guarantee the correctness of this item. They assumed no responsibility for it. They took the item from the manager, and the entry in the balance sheet showed that they did so. I confess I cannot see that their omission to check his returns was a breach of their duty to the company. It is no part of the auditor's duty to take stock. No one contends that it is. He must rely on other people for details of the stock-in-trade in hand. . . .

Lopes, L.J., in the course of his judgment in the same case, referred to

the decision in *In re London and General Bank*. In this case it was decided that it was the duty of the auditor:

> to examine the books not merely for the purpose of ascertaining what they do show, but also for the purpose of satisfying himself that they show the true financial position of the company. An auditor, however, is not bound to do more than exercise reasonable care and skill in making enquiries and investigations. . . .

In both cases the essence of the judgment surely is: " reasonable care and skill in the execution of an auditor's duties." Once again, one has to decide what these words mean in the conditions of the time at which the audit is done. Can a managing director's certificate be accepted at its face value, even if the stock is so described in the accounts? Our earlier remarks would suggest that it cannot.

A further point made in the judgment in the case *In re London and General Bank* was that

> a person whose duty it is to convey information to others does not discharge that duty by simply giving them so much information as is calculated to induce them, or some of them, to ask for more.

It is suggested that " stock as per manager's certificate " or some similar wording might well require amplification.

If a case exactly similar to the *Kingston Cotton Mill* case were brought before the Courts today, it would be interesting to see whether modern commercial requirements and recent legislation would cause the judgment to be different.

[*To be concluded*]

Accountants in South America

By JOHN BROWN

THE PROSPERITY WAVE THAT HIT SOUTH America in 1942, with the increased demand for raw materials, has not yet receded and the " old hands " who prophesied a recession any time after 1945 have been confounded. Living standards have been greatly improved, in Uruguay, Brazil and Venezuela, as well as the Andean republics of the west coast. The emphasis today is on the creation of small manufacturing industries financed by local capital.

These developments have resulted in a keen demand for the services of trained accountants. The " hit-and-miss " business methods of the inter-war years have gone. Peruvians, Brazilians, Venezuelans and Chileans now go to North America on the completion of their university courses, to take a special course in accountancy at the University of New York—which specialises in commercial studies—and to undergo practical training. A large number of Latin Americans are also employed in the accounts department of the United Nations Headquarters, and as the normal tour of duty is three years in New York, there is already a fair-sized cadre of bi-lingual and well-trained men and women available in every South American country except Paraguay.

Colleges for the children of the Anglo-Saxon colony and those of the local business community have long been established in the capital cities. They take their students up to the matriculation standards of a British university. Since 1930 this system has had a far-reaching effect on general accountancy standards. Familiarity with British and American working methods and standards of efficiency —together with the emphasis on sport and an international outlook—have transformed the outlook of the younger generation. The old-fashioned social caste system, with its arranged marriages and limited education based on Spanish medievalism, has gone for ever. Hollywood and the American business magazines set the new standards. Every modern office gadget can be seen in the commercial offices of Rio de Janeiro, Buenos Aires, Lima and the other main centres. National prestige no longer means anti-gringoism, but " North American standards by 1960."

Accountants from this country who speak Spanish (Portuguese in Brazil) are assured of a big income, especially if they are well-mannered, like most of the British, and have a social sense. American accountants who sit on the desks of their clients and casually smoke cigarettes when they stroll into Government offices have lost a great deal of business, without knowing why.

In the remote districts, the owners of many *haciendas* have trouble with their accounts, because of the great changes in taxation procedure since the war; they are only too glad to hire an expert. But transport facilities are exceedingly limited, especially in Amazonia, and there are hazards unknown in Europe. If an aircraft crashes in Amazonia, for instance, there is little likelihood of rescue for weeks and possibly months, for there is no road or rail connection, and some of the unexplored forests are as big as France. Distances are very great. The Andes range runs for 3,500 miles from the Ecuador volcano belt down to southern Chile, and Brazil is bigger than the United States without Alaska. Peru, generally thought of here as a small country, is thirteen times the size of the United Kingdom, and her unexplored territory alone is much bigger than the whole of Britain.

In Lima I found that not every accountant is eager to visit the Andean regions. The railway runs across the Andes, at 16,000 feet, and the journey is a terrible ordeal for men with weak hearts or asthma. A nurse and doctor travel on every train, and injections of adrenalin or coramine at sevenpence a needle are always available, with oxygen masks. In the Andean towns, most of which are at altitudes of about 14,000 feet, it is impossible to sleep for the first few days, and it is a great mistake to hurry anywhere until acclimatised. Even the strongest man will have to lie down, panting, until his blood adjusts itself to " oxygen lack." There is also some evidence of mental deterioration at first. In three months

the symptoms pass off, and a few fortunate people do not suffer at all, but newcomers are unable to forecast their personal reactions—it is a matter of personal idiosyncrasy. Sometimes the Indians returning to their native sierras from the lowlands are the first to go down.

In the jungle towns such as Iquitos or Manaos the problems are different. Here the temperature at midday runs around the 100 deg. F. mark, and the humidity is such that boots go mouldy in a couple of days if left ungreased, and rifle barrels turn rusty. Because of high air freight charges, all goods are brought up the Amazon, 2,000 miles from Para, and the Amazonians look on themselves as an international community of traders rather than a group with local allegiances. There is a tradition of hostility to tax collectors from the distant capitals that recalls the attitude of small farmers in France, and does not help visiting specialists. Much of the river trade is in barter, fifty bags of castanha nuts against a thousand quinine tablets, and so on.

In western Amazonia, according to the Peruvian Government, there are about 350,000 Indians in various stages of development, ranging from the head-shrinkers of the Ecuador border to the gentle *Chunchos* around Nauta. It is a great relief for a white man to get back into the cool of the *sierras*, where the poncho-clad Indians still speak the old Inca language and are happy with their llama herds at altitudes not far below those of the Himalayas.

I was fascinated by the accountancy system of the ancient Incas, which recalled the permutation systems of football pool devotees. The art of writing was unknown in the vast Inca empire, which stretched for 2,000 miles down the west coast, and all statistics of production and available labour forces and taxation were carried by relay runners, who bore with them a card of coloured wools, knotted in a series of squares. The Inca organisers at Cuzco could thus see at a glance the amount of corn available in Trujillo, a thousand miles to the north, only five days after the local governor had finished his check, and on the same card would be the tally of births and deaths and prisoners awaiting trial. Another kind of wool and knot symbols indicated the gold and silver resources and taxes outstanding.

South America is still a land of boundless opportunities, although it should be said that if salaries are high, so are prices, which in the big cities average double those of Britain and in the remote areas are four times as high.

Readers' Points and Queries

Profits Tax—Apportionment of Directors' Remuneration

Reader's Query. — A director-controlled company has two whole-time directors. Drawings on account of salary are made at an agreed rate, with an adjustment at the end of each financial year for any additional amount which it is desired to pay. In its accounts for the year ended November 30, 1951, the company charges the exact amount allowable for Profits Tax, namely

$\frac{1}{12} \times £2,500 =$	£208
$\frac{11}{12} \times £3,500 =$	£3,208
Total	£3,416

The Inspector of Taxes, whilst admitting the inequity, maintains that the £3,416 must be apportioned on a time basis over the two chargeable accounting periods, giving £283 (excess remuneration of £75) for the first and £3,133 (£75 disallowed owing to restriction to sum actually paid) for the second. He states that even if there were a minute specifically allocating £208 to December 1950, and £3,208 to January-November 1951, he would still probably seek to apportion the salary on a time basis.

Reply.—It should be pointed out to the Inspector that he has power to adjust the division of profits under Section 20 (4), Finance Act, 1937. This provides that apportionment of the profits of an accounting period to separate chargeable accounting periods has to be on the basis of months or fractions of months, unless the Commissioners of Inland Revenue, having regard to special circumstances, otherwise direct. As was pointed out in ACCOUNTANCY *for November 1951 (page 421), this Section is entirely different from Section 37, Finance Act, 1947, which deals with gross relevant distributions. The latter must be apportioned on the months or fractions of months basis, without any power to adjust it.*

Expenses of Engaging Employees

Reader's Point.—A client company wished to obtain the services of two skilled technicians. In the case of one it paid an agreed sum of compensation to his employers to release him from a service agreement. In the other the prospective employee, who was resident abroad, made it a condition of his acceptance of the appointment that the company should pay the cost of bringing him and his family to this country.

The local Inspector of Taxes refused to allow either of these expenses as admissible deductions in arriving at assessable profits but, after protracted correspondence and an interview, submitted the case to the Board for a ruling. Both charges have now been admitted as deductions.

Patents—Section 39 (1), Income Tax Act, 1945

Reader's Query.—Is expenditure on abortive applications for patents admissible? [For full query see ACCOUNTANCY, April, page 147.]

Reply.—In our April issue we replied that the Head Office of the Inland Revenue confirmed that the grant of letters patent was a condition precedent to an allowance. Clause 20 of the Finance Bill, published since that issue went to press, provides that fees paid or expenses incurred in connection with a rejected or abandoned application for a patent are to be treated from 1952-53 as if the application were granted—i.e. they would normally be allowed.

The Finance Bill—I

INCOME TAX

Personal Allowances

THE INCREASES IN THE EARNED INCOME AND OLD AGE ALLOWANCES from one-fifth (maximum £400) to two-ninths (maximum £450), in the personal allowances from £110 to £120 (lower) and £190 to £210 (higher) and in the allowance for each child from £70 to £85, and the extension of the reduced rate relief by the introduction, in effect, of a fourth rate of 7s. 6d. between the old rates of 5s. 6d. and 9s. 6d. have already received wide publicity.

For P.A.Y.E. these changes will not be applied until the first pay day after June 7, 1952, but they will, of course, then be effective as from April 6, 1952. The issue of new P.A.Y.E. tax tables may be anticipated by pointing out that "free pay," where earned income is concerned, will now be found by adding two-sevenths to the (revised) allowances as coded. The point at which some income tax is first payable at the standard rate is then found by adding £514 (i.e. 9/7ths of £400) to the "free pay." The results, in a few representative cases (in which allowances for National Insurance contribution, life insurance, etc., and deductions for untaxed income, including family allowances, have been ignored) are as follows:

	Allowances as coded	Free Pay	Liability at standard rate commences at
	£	£	£
Single person	120	155	669
Married man	210	270	784
Married man with 1 child ..	295	380	894
Married man with 2 children	380	489	1,003
Married man with 3 children	465	598	1,112

As the earned income of a married woman attracts the full range of allowances appropriate to a single person the above limits are very substantially increased when the family earnings are contributed to by the wife. Thus for a married couple with two children :

(i) "free pay" extends to £644 provided at least £155 is earned by the wife;

(ii) liability at standard rate commences at £1,672 provided at least £669 is earned by the wife. (Where the wife's earnings are less than £669 the answer is obtained by adding them to £1,003.)

Where annual charges are paid under deduction of tax, there will now be many more cases where they have to be retained in charge at that rate. The effective rate of life assurance relief will also fall where no tax is now payable at 9s. 6d. The combined effect of these two factors and the general increase in mortgage interest rates will bear hardly on those who are buying houses with the help of an endowment policy as collateral to a fixed mortgage.

Small Incomes Relief

Where the total income of a claimant (this, of course, is combined income in the case of husband and wife) does not exceed £250, it is to be treated as though it were all earned. Marginal relief applies between £250 and £350—this was illustrated last month.

Since the majority of small incomes are in fact earned except at the higher ages which are already covered by old age relief, the new provision may appear, at first sight, to be of very limited application. It will, however, be of considerable benefit to wives who are separated or divorced from their husbands and are in receipt of small maintenance payments. As these payments are usually made (or owed!) by the husband out of earned income and result in the restriction of his own earned income allowance, but are assessable in the hands of the wife as unearned income, considerable injustice and hardship have resulted.

The increased range of reduced rate reliefs gives rise to a curious anomaly in marginal old age relief cases. Where the income is entirely unearned, the points at which marginal relief ceases to give any benefit are:

Single person .. £767
Married couple £659

which is a curious reversal of the normal policy of soaking the unmarried (see page 166 of this issue). The obvious remedy is to increase the income limit of £500, which has remained at that figure ever since old age relief was introduced in 1925.

Schedule D, Cases III, IV and V

Nearly three pages of the Bill are devoted to Clause 15, which is a complicated provision designed to remove certain anomalies arising from the application of the preceding year basis of assessment. Broadly, the effect of the new provisions is to enable the taxpayer to treat the last year in which income is received from a source as though it were the year in which he ceased to possess that source.

Previously the cessation rules under these Cases have not come into operation until the source of the income has been parted with.

Example

Income assessable under Case III, IV or V of Schedule D, the source of which was acquired many years ago and was sold in March 1953.

Yr. ended	Income	Assessments old basis		Assessments new basis		
	£		£		£	
Apr. 5, 1949	400	1949-50	400	1949-50	400	(increased to £500)
1950	500	1950-51	500	1950-51	200	
1951	200	1951-52	200	1951-52	nil	
1952	nil	1952-53	nil	1952-53	nil	
1953	nil					

Losses Carried Forward

Clause 23 of the Bill abolishes the limit of six years governing the carrying forward of:

(*a*) trading losses under Section 342, Income Tax Act, 1952 (formerly Section 33, Finance Act, 1926);

(*b*) "Case VI losses" under Section 346, Income Tax Act, 1952 (formerly Section 27, Finance Act, 1927);

(*c*) management expenses under Section 425, Income Tax Act, 1952 (formerly Section 33, Finance Act, 1933);

and applies to:

(i) losses or expenses incurred after April 6, 1952;

(ii) losses or expenses which could, under existing legislation, have been carried forward to 1952-53;

(iii) losses incurred before 1946-47 which could have been carried forward to 1952-53 if the years specified in Section 22 (1), Finance (No. 2) Act, 1945, had included the year 1946-47.

The practical effect of all this is that losses and management expenses can be carried forward without limit:

(1) in the case of trading losses provided they were incurred not earlier than 1939-40.

(2) in the case of "Case VI losses" and management expenses provided they were incurred not earlier than 1946-47.

Unsuccessful Applications for Patents

Clause 20 provides that Section 139, Income Tax Act, 1952 (which relates to payments made for the purposes of a trade), and Section 320, Income Tax Act, 1952 (which relates to payments not so made), shall have effect in relation to fees paid or expenses incurred in connection with any application for a patent where the application has been rejected or abandoned as they would have effect in relation to those fees or expenses if the patent had been granted.

Patent Rights

Clause 21 and the Sixth Schedule (Part II) provide that expenditure incurred after the commencement of the Act in acquiring a right to acquire in the future patent rights is to be deemed to be expenditure on the purchase of those rights. In the hands of a recipient such sums are similarly to be deemed to be proceeds of a sale of patent rights.

Section 318, Income Tax Act, 1952 (which imposes a charge on capital sums received for the sale of patent rights), is to apply in relation to any sale after the commencement of the Act of part of any patent rights as it applies in relation to sales of patent rights.

Mining Concerns

Clauses 16 to 19 give effect to certain recommendations of the Committee on Taxation of Trading Profits and, not being of general application, are only briefly noted here.

Clause 16 gives relief (as an expense incurred for the purpose of the trade) for expenditure on searching for, or on discovering or testing, the mineral deposits of any source or winning access thereto, where the search, exploration or enquiry is subsequently abandoned.

Clause 17 and the Fifth Schedule enable, with certain reservations and transitional provisions, expenditure on machinery and plant to be included in the total of the expenditure for which allowances may be claimed under Chapter III of Part X of the principal Act.

Clause 18 extends similar relief to expenditure on the acquisition of land outside the United Kingdom. Clause 19 affords relief for capital expenditure outside the United Kingdom on contributions by mining concerns to public services, etc., for the occupation by or welfare of persons employed.

Tied Premises

Clause 22 provides that in computing for the purposes of income tax the profits or gains or losses of a trade carried on by a lessor of tied premises:

(*a*) there shall be taken into account as a trading receipt any untaxed rent payable for the premises to him, and there shall be allowed as a deduction any untaxed rent paid for the premises by him; but

(*b*) no deduction shall be allowed in respect of the premises either by reference to his being entitled to a rent for the premises less than the rent which might have been obtained (or less than the annual value of, or the rent payable by him for, the premises) or, subject to the foregoing paragraph, in respect of the rent or annual value of the premises.

Nine further sub-clauses are necessary to complete this complicated provision, the main effect of which appears to be to nullify the long-standing decisions in *Usher's Wiltshire Brewery, Ltd.* v. *Bruce* (1915, A.C. 433; 6 T.C. 399), which has for so many years governed the treatment of rents of tied houses in the assessment of brewery profits.

Preferential Claims

Clause 26 remedies a defect which omitted from the list of preferential debts in bankruptcy, liquidation, etc., P.A.Y.E. tax deductions in the hands of an employer. The preference extends to deductions for a period of twelve months next before the relevant date (i.e. the date of the receiving order, etc.).

Capital Allowances—Machinery and Plant

The Sixth Schedule contains some far-reaching provisions which are concerned mainly with balancing charges and allowances. A sale of plant on or after the permanent discontinuance of a business will not now escape the provisions of Section 292, Income Tax Act, 1952; on the contrary, the permanent discontinuance of the business is one of the factors which will in itself give rise to a balancing adjustment.

Other provisions involve the substitution of an "open market price" for the actual proceeds of sale in almost all circumstances other than a sale at or above "open market price." Broadly it would appear that once capital allowances have been received in respect of machinery or plant, balancing adjustments will arise when it ceases to be used for the purpose of the trade. The Schedule demands detailed and careful study.

The Finance Bill—II

PROFITS TAX

Rates

THE NEW RATE OF PROFITS TAX FOR ANY CHARGEABLE ACCOUNTING period (C.A.P.) falling after December 31, 1951, is 17½ per cent. subject to non-distribution relief (N.D.R.) at 15 per cent. or, in other words, 17½ per cent. on distributed profits and 2½ per cent. on profits retained.

The reduction in the rates is not so marked as it appears to be, for, after December 31, 1951, the Profits Tax payable for any C.A.P. ceases to be an allowable deduction for income tax purposes. To obtain a fair comparison with the old rates the new ones must be grossed up at 9s. 6d.; they are then seen to be equivalent to 33⅓ per cent. (which is two-thirds of the 1951 rate) on distributed profits and about 4¾ per cent. (which is less than half the 1951 rate) on profits retained.

Distribution Charges

The first of the "consequential and transitional provisions" which are found in the Seventh Schedule deals with rates of distribution charges (D.C.). These follow the "last in, first out" principle that has always ruled where changes in the rate of Profits Tax have been made.

In the past that meant that any D.C. was first calculated at the highest rate at which N.D.R. had been received and continued at successively lower rates until all past N.D.R. had been withdrawn. In the future the first N.D.R. to be withdrawn is the 15 per cent. given for any C.A.P. ending after January 1, 1952. To allow (approximately) for the effect of income tax, the old rates of N.D.R. are then halved and successive D.C.s are then calculated:

(i) at 20 per cent. in so far as N.D.R. has been received at 40 per cent.

(ii) at 10 per cent. in so far as it has been received at 20 per cent.

(iii) at 7½ per cent. in so far as it has been received at 15 per cent.

Repaid Loans

Clause 2 affords a good example of the complications that arise when a tax which is continuous (in the sense that the distribution and non-distribution provisions of Profits Tax are) is subject to frequent variations in the rate of tax.

Over a page of closely worded and, at first sight, very complicated provisions are necessary to obtain, as in the past, a simple result. This is, that the repayment of a loan from a director-controlled company brings relief from Profits Tax equivalent to the additional Profits Tax paid as a result of the making of the loan!

Dividends

At a time when the whole fiscal machine is geared against higher distributions of profits, it is necessary to ensure that a company which lowers its dividend for 1951 may be penalised if at some later time it pays more! To secure this result:

(*a*) the dividend for 1951 is first compared with the last "pre-1951" dividend and, if it is found to be lower

(*b*) in so far as a "post-1951" dividend exceeds the last "pre-1951" dividend, it has to be treated as a distribution for 1951.

Example.

A company (which has not changed its capital for many years) paid a gross dividend of £20,000 for 1950 but reduced this to £15,000 for 1951.

If for 1952 it declares a dividend of £30,000, £5,000 of this will be treated as a distribution in 1951.

If the 1952 dividend is £20,000 (i.e. it returns to the pre-1951 level but does not exceed it) no adjustment arises as yet. The "contingent liability" goes forward, however, and if the 1953 dividend is £25,000, £5,000 of this will be thrown back to 1951.

Directors' Remuneration

Clause 30 of the Bill amends paragraph 11 of the Fourth Schedule to the Finance Act, 1937, and increases the maximum deduction for the remuneration of directors in a director-controlled company to the greatest of the following amounts:

(*a*) 15 per cent. of the profits (subject to the over-riding limit of £15,000);

(*b*) £2,500;

(*c*) where, for more than half the accounting period, there are two or more directors who are required to devote substantially the whole of their time to the service of the company in a managerial or technical capacity, but are not whole-time service directors:

(i) where there are only two such directors, £4,000;

(ii) where there are only three such directors, £5,500;

(iii) where there are four or more such directors, £7,000

but subject in each case to the restriction that the amount allowable is not to exceed an amount obtained by deducting from the total remuneration of all such directors:

(*a*) the amount, if any, by which the remuneration of the highest paid such director exceeds £2,500;

(*b*) the respective amounts, if any, by which the remuneration of any other such director exceeds £1,500.

If the remuneration of the highest paid director is less than £2,500, the deduction under (*b*) is reduced accordingly.

Examples:

The directors named are "whole-time" but not "whole-time service" directors. "Others" are neither whole-time nor whole-time service directors.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	£	£	£	£	£	£	£
Others	3,000	500	3,000	500	500	1,500	500
A ..	4,000	3,000	4,000	5,000	5,000	5,000	2,400
B ..		2,000	1,000	2,000	2,000	2,000	1,800
C ..				1,000	1,000	1,000	1,500
D ..					1,000	1,000	1,000
E ..						800	
Allowed	2,500	4,000	3,500	5,000	6,000	6,800	6,500

In each case 15 per cent. of the profits might increase the maximum.

The Finance Bill—III

EXCESS PROFITS LEVY

Rate

THIRTY PER CENT. OF THE EXCESS OF THE PROFITS OF THE CHARGEable accounting period (C.A.P.) over the standard profits, with a maximum that the total E.P.L. to any date is not to exceed 18 per cent. of the profits to date.

E.P.L. is not deductible for Income Tax or Profits Tax; nor is either of them deductible for E.P.L.

Scope

Chargeable on companies and on unincorporated societies or other bodies not being partnerships of individuals. The share of a company in a partnership is included in the company's profits. All trades and businesses carried on by a company are regarded as one business. *All* investment income must be included in the profits.

A company ordinarily resident in (i.e. controlled and managed from) the United Kingdom is exempt if it satisfies all these conditions:

(*a*) all its trading is carried on outside the United Kingdom; and
(*b*) the whole of its share capital is owned by a company or companies not ordinarily resident in the United Kingdom; and
(*c*) at least 90 per cent. of the share capital of the holding company (or each of the companies) is beneficially owned (whether directly or through companies) by non-resident individuals.

Commencement

The commencing date is January 1, 1952. Profits of accounting periods bridging that date are apportioned on a time basis, unless the C.I.R. direct otherwise having regard to special circumstances. Accounts for broken periods are not "special circumstances" unless drawn up before 1952.

Computation of Profits

Profits are computed as for Profits Tax with these modifications:

(1) There is no abatement.
(2) Franked investment income is included (a gross example of double taxation).
(3) No pre-1952 losses are carried forward. (This is harsh where losses have been made before 1952, but is remedied for losses in 1952 onwards by deficiency relief.)
(4) Initial allowances in respect of A.P.s ended after April 5, 1949, are to be recomputed in the case of plant and machinery, as if 20 per cent. had been the rate allowable; initial allowances at that rate will continue in respect of expenditure even after April 5, 1952. The company has the right to claim, however, by December 31, 1952—or such longer time as the C.I.R. allow—that no initial allowances be deducted in any A.P.
(5) Annual payments to certain directors of director-controlled companies are allowed as deductions.
(6) Payments of interest between inter-connected companies are allowed on the one hand and included in profits on the other.
(7) The deductions for directors' remuneration in director-controlled companies must be recomputed for all A.P.s by reference to the new limits set out for Profits Tax.
(8) Unreasonable or unnecessary expenses (including excessive directors' remuneration) can be disallowed.
(9) Expenses can be attributed to their proper periods.
(10) Pension scheme "back service" payments are not allowable deductions.
(11) Repairs and renewals deferred from war years for which relief was not given for E.P.T. have to be "spread" in computing the standard profits.

Standard Profits

The average profits of the calendar years 1947, 1948 and 1949, increased by 10 per cent. on any cash (including share premiums and other valuable consideration) received in respect of an issue of shares after the beginning of 1947 and before the end of the C.A.P. If, however, the cash in question was received during the standard period (the three years 1947, 1948 and 1949), the increase is reduced to the proportion that the length of the period *prior* to the receipt bears to three years. If it is received in the C.A.P., the reduction is in proportion that the period subsequent to the receipt bears to the length of the C.A.P.

Example: Cash received for shares, January 1, 1948: £30,000.
Increase is $\frac{1}{3}$ × 10 per cent. of £30,000 = £1,000.
If on January 1, 1947, the increase would be nil;
on January 1, 1949, $\frac{2}{3}$ × 10 per cent. of £30,000 = £2,000; and
on January 1, 1950, 10 per cent. of £30,000 = £3,000.
Capital received on March 31, 1952, in accounts for the calendar year would carry an increase of $\frac{3}{4}$ × 10 per cent. of £30,000 = £2,250.

Should any sum be repaid in respect of share capital, the standard is decreased by 10 per cent. in a similar manner.

There is a further increase or decrease of 10 per cent. of undistributed profits or over-distributions of profits, as the case may be (see below).

Alternative Standards

(1) There may be taken as the profits of one or of each of two of the standard years an amount equal to 8 per cent. of the average paid-up share capital in that year (or those years). The amount(s) is/are added to the profits of the remaining year(s) and the total divided by three.

(2) Instead of (1) there may be taken 10 per cent. of the paid-up share capital at the end of the standard period. In that event, there is no increase or decrease in respect of capital received in the standard period.

New Businesses

The standard for a business commenced after the beginning of the standard period is as follows:

(*a*) If begun on or after July 1, 1948: 10 per cent. of the (net) cash received for share capital before the end of the C.A.P. (adjusted proportionately if received in the C.A.P.) increased (or decreased) by 10 per cent. of the undistributed (or over-distributed) profits from the date of commencement or January 1, 1948,* whichever is the later date.
(*b*) If begun before July 1, 1948, either (*a*) or taking average of one year of the profits up to December 31, 1949, and adjusting for capital received, undistributed profits, etc.

* This date is presumably included here to cover (*b*).

In the case of a director-controlled company, 10 per cent. becomes 12 per cent., and 8 per cent. becomes 10 per cent. in all that has so far been said.

Minimum Standard

For a full year, £2,000. This is an alternative in any C.A.P. to the standard profits arrived at as already described.

If, however, two or more companies incorporated after 1951 are under common control, the £2,000 is apportioned between them.

Deficiencies

Deficiencies can be set against excess profits of any C.A.P., unless there is a break in continuity caused by cessation of trade, change of control, etc., in which event nothing before the break can be set against anything after it. The "break in continuity" provisions are important as indicating an attempt to prevent the sale of companies for the benefit of their E.P.L. standards or deficiencies.

Undistributed Profits

These are the excess of "A" below over "B" below:

"A" is the sum of half the profits of the accounting period (A.P.) plus any E.P.L. of a previous C.A.P. which is the subject of deficiency relief for the A.P.

"B" is the sum of:

(*a*) half the loss (if any) for the A.P.
(*b*) the E.P.L. for the A.P. (ignoring deficiencies for any subsequent A.P.);
(*c*) the excess of the Profits Tax for the A.P. over that which would have been payable had there been no net relevant distributions;
(*d*) the net dividends or cash bonuses to members;
(*e*) the value of any assets distributed in kind to members;
(*f*) sur-tax charged on certain restrictive covenants;
(*g*) sur-tax paid by the company on a direction on income of the A.P.

If "B" exceeds "A," there is an over-distribution to that extent.

Transfers of Going Concerns

Provision is made for the transferee succeeding to the transferor's standard profits, etc.

If the transferor is an individual or partnership of individuals, and the transferee is a company controlled by the transferor(s) or his or their spouses, children, brothers, sisters, personal representatives, etc., the company can elect to be regarded as having carried on the business of the transferor(s).

Special rules are laid down as to transfers of businesses to newly created companies without change of ultimate control.

Inter-connected Companies

Where, at January 1, 1952, of two or more companies ordinarily resident in the United Kingdom, one is the parent company and the others subsidiaries, they are regarded as a group. (A 75 per cent. holding (directly or indirectly) is the requirement to make a company a subsidiary.)

Where the business of any of the members of the group commenced on or before January 1, 1947 (or at the election of the parent company, where that one member of the group which commenced the earliest commenced after January 1, 1947, but before July 1, 1948), the standard profits are to be average of one year of the composite profits of the group for the standard period (or for a proportionate part where the earliest business commenced in that period). The composite figure is to be arrived at by aggregating the profits of the members.

Alternatively, (*a*) the profits of any one or two of the three years may be taken as 8 per cent. (10 per cent. in the case of director-controlled companies) of the aggregate paid-up share capital of the group in those year(s), ignoring inter-company holdings of capital (except that of the parent company), or (*b*) the composite figure for the group may be taken as 10 per cent. (12 per cent.) of the aggregate share capital at December 31, 1949.

The capital standard applies to any group of which no member was carrying on business before January 1, 1950.

Whenever the business commenced, the parent company can elect that the group shall have a standard of £2,000 (apportioned by the C.I.R. among the member companies of the group subject to appeal to the Special Commissioners).

If before the end of the C.A.P. "the nexus has been severed" (i.e. the member in question ceases to be ordinarily resident in the United Kingdom or is dissolved, or ceases to be a member of the group) as regards a company, it can elect to have the minimum standard.

Where a member company pays for share capital of another member, it is deemed to have repaid its own share capital by a sum equal to the cost; the receiving company is deemed to have received a sum for an issue of capital.

Inter-company dividends are ignored in computing profits, etc., but not for computing undistributed profits or over-distributions.

If the principal company is director-controlled, all members of the group are regarded as director-controlled.

The assessment on the group is made on the parent company, but is recoverable from either the parent or the appropriate member company jointly and severally.

Any deficiency of profits is used first to reduce the member's E.P.L. for previous C.A.P.s, secondly against profits assessable on the parent company up to the end of the C.A.P. in question, and thirdly by carry forward against the member's next profits (any balance against the group profits) and so on.

After the severance of the nexus, deficiencies arising before cannot be set against subsequent excesses; nor can subsequent deficiencies be set against past excesses of the group.

The principal company can recover the appropriate E.P.L. from other members.

New Holding Companies

If a holding company is incorporated after January 1, 1952, and acquires 75 per cent. or more of the other company or companies, the cash paid for shares in any subsidiary will be regarded as a repayment of the holding company's share capital, dividends from the subsidiary will be excluded from the parent's profits, and certain other effects follow.

Special Cases

Space prohibits more than reference to special cases, e.g. companies not ordinarily resident in the United Kingdom; companies without share capital; mines and oil wells; local authorities; nationalised undertakings.

Sur-tax Directions

If the whole profits are the subject of a sur-tax direction, they are exempted from E.P.L.

Due Date

The E.P.L. is due one month after assessment. Appeal lies to the General Commissioners, or the Special Commissioners.

The Royal Commission on Taxation

MEMORANDA FROM THE ACCOUNTANCY BODIES

SOCIETY OF INCORPORATED ACCOUNTANTS

On PART B OF THE HEADS OF EVIDENCE, the Society of Incorporated Accountants* recommends that sums received as compensation for loss of office, if assessable on the recipient, should be spread over a period of years, but that it is proper to regard as immune from taxation those sums that are now regarded as capital. It points out the unreal and inequitable distinction between non-resident directors and non-resident employees of United Kingdom companies, and recommends that they be placed on the same footing. It recommends that the capital content of purchased life annuities should be relieved from taxation; capital allowances should be given for wasting assets such as mines, quarries, gravel pits, etc.; a capital gains tax is neither practicable nor desirable.

On the distinction between profits liable to charge and those not liable, it regards the present practice as satisfactory, despite anomalies in border-line cases. While taxation under Schedules A and B is unsatisfactory, it is recognised that the loss of revenue by exempting owner-occupied properties cannot be faced at present. Receipts from ownership of property should be transferred to Case I, however, the taxpayer electing once for all whether to have a statutory deduction for repairs, or his actual expenditure (any excess of which should be available against other income or for carry forward). All business premises should attract capital allowances.

On the question of deduction for expenses, the Tucker Committee recommendations are in general approved.

Earned income relief should be extended to sur-tax, coupled with a reduction in the level of income on which sur-tax is levied. Effect has already been given in part to the recommendations of evening out reduced rate reliefs. Overtime earnings should not be subject to a differential rate. P.A.Y.E. should continue.

Fees for educating children should be the subject of some relief. It would be desirable to tax a husband and wife as single persons each on half the joint income, but loss of revenue precludes that; earned income relief, however, should be separately computed with separate maxima.

All interest payments should be taxed at source; the validity of Tax Reserve Certificates should be extended. Alterations in the qualification, etc., of General Commissioners are suggested, also the appointment of Area Commissioners to deal with complex cases, and the circulation of precedents; the time limit on claims should never be less than two years.

The memorandum ends with a plea for modernising the law—a process capable of piecemeal application.

INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

The Institute submitted memoranda of such volume that it is possible to extract the high lights only from that on Part B. The Institute recommends, *inter alia*:

(*a*) The removal from Cases I and II of profits earned abroad except to the extent remitted to the United Kingdom.

(*b*) Similar removal from Schedule E of earnings where the duties are performed abroad.

(*c*) No taxation of the capital content of purchased annuities.

(*d*) Income from property not owner-occupied to be assessed on income less outgoings; increase of statutory repairs allowances; excess repairs to be allowed against other income.

(*e*) Amortisation allowances for all wasting assets; no disallowance of expenditure as being capital unless amortisation allowances are made, except where it is non-depreciating.

(*f*) Extension of Rule 7 (old Rule 9) of Schedule E.

(*g*) Several double taxation amendments to eliminate anomalies.

(*h*) Increased steps in reduced rate relief; increase in earned income limit; earned income relief to be extended to sur-tax.

(*i*) Marginal relief for child allowance where the child has income over the limit; increase in income limit for age relief; the requirement of residence of the housekeeper with the claimant to be removed.

(*j*) The removal of the taxation penalties on marriage.

(*k*) Amending P.A.Y.E. to allow tax on fluctuating commissions, etc., to be deducted as a supplementary payment for the year to which they relate.

(*l*) Deductions under Section 170 of the Income Tax Act, 1952 (old General Rule 21), to be at the standard rate when the payment became due.

(*m*) Extension of time limits for claims.

(*n*) Review of anti-avoidance provisions to remove uncertainty; restriction on retro-active legislation; review of penalty provisions.

(*o*) A contribution by a member of a group of companies to a loss of another member should be regarded as a trading expense and receipt respectively; unrealised profits on stock or fixed assets bought by one member of a group from another should be allowed as a deduction.

(*p*) Where the division of partnership profits results in a loss to a partner, he should be allowed relief, the other partners being required to pay on their full shares of profits; excess annual charges of the firm to be allowed against private incomes of partners in it.

(*q*) Extension of management expenses; claims to deceased persons' estates; payments to beneficiaries out of capital to escape tax.

(*r*) Section 341 of the Income Tax Act, 1952, to extend to a loss in any transaction on which a profit would attract income tax; losses carried forward to be available against any income, also to be available retrospectively for three years.

(*s*) Pending a satisfactory "actual" basis, the cessation provisions for Cases I and II to apply to a cessation of part of a business.

(*t*) One or two items that have found place in the current Finance Bill.

(*u*) Relief on retained profits, to meet the financial problem of replenishing assets in times of rising prices. If the practical difficulties with sole traders and partnerships were considered insuperable, they should receive increased earned income relief, with its extension to sur-tax, or sur-tax should be lower for earned incomes. Alternatively, replacement allowances on a "renewals" basis should be allowed for fixed assets, enabling the full replacement cost of assets, less previous annual allowances and proceeds from realisation, to be charged for tax purposes (but not for purposes of the commercial accounts) when acquired: no specific proposal is made for relief of profits retained to finance stock at higher prices.

(*v*) As to Profits Tax: Its abolition, and failing that: an increase in directors' remuneration maxima; distributions to be deemed to come first out of franked investment income; any income apportioned under Section 245 (old Section 21, Finance Act, 1922) to be freed for Profits Tax, etc.

(*w*) Abolition of Corporation Duty.

ASSOCIATION OF CERTIFIED AND CORPORATE ACCOUNTANTS

The Association suggests the increase in steps of reduced rate relief; extension of earned income allowance; a flat rate of personal allowance for every person; separate assessment of husband and wife, but transfer of balances of personal reliefs; deduction of tax from interest in arrear to be at the rate at date of payment (whether Section 169 or Section 170 of the Income Tax Act, 1952—old General Rules 19 and 21—applies), the recipient having the right to claim adjustment; tax under Schedule A to be collected direct from the owner or beneficial occupier; the exemption of the capital content of annuities; quick revaluation for Schedule A; right of appeal as to the penalty in back duty settlements; the Court to have power to mitigate penalties; review of penalties.

*The full text of the evidence submitted by the Society of Incorporated Accountants under Part B was included as an inset in the issue of ACCOUNTANCY for April, 1952.

It also recommends a review of the law affecting foreign income of residents, and of allowances for non-residents, and a clarification of what constitutes residence. Certain anomalies, etc., on double taxation are also dealt with.

The above is a factual summary of voluminous documents. It remains to be noted that it is strange that there are so few recommendations that are common to the three bodies. Those that are, however, are, in general, in similar terms, though they disagree in one or two details.

Taxation Notes

Excess Profits Levy

As it is hoped that amendments will remove some of the worst features of the Excess Profits Levy, we are not including any examples of computation in this issue. We hope that the Committee stage will be far enough advanced to enable us to go into more detail next month. It will be necessary to spread the consideration of the Bill in detail over several months.

Farming

The growth in number in what may be called " amateur farmers " has received some publicity. While some are successful, many of these farmers are making considerable losses on which they claim relief under Section 341 of the 1952 Act (the old Section 34). It has been suggested that relief for such losses should be given only by " carry-forward " under Section 342, and not under Section 341 at all. That might prejudice the professional farmer.

The position has lured some Inspectors of Taxes into irrelevant paths, such as querying the control and methods of farming. We think that it has also lured some of the amateur farmers along thorny paths. So long as money was free, the value of the farms went up. The time may have arrived when they must realise that even sur-tax payers suffer the balance of the loss, where there is no prospect of a capital profit.

The loss is frequently aggravated in early years of ownership by falls in value of livestock bought out of established herds. These only creep up in value again as the new owner establishes a reputation. There are many pitfalls, but neither the accountant nor the Inspector of Taxes is normally qualified to do more than satisfy himself that the loss has in fact been incurred. The accountant can and must point out to his client the seriousness of losing money, but will usually not be able to suggest how farm methods, etc., should be improved.

Utensils

Section 137 (*d*) of the 1952 Act states that, in computing profits, no sum can be deducted in respect of the supply of utensils for the purposes of the business beyond the sum actually expended for those purposes. It has been argued that this would cover the initial cost, but it is clear that " supply " here must be read in the sense " replenishment "; the first cost is capital outlay.

Age Relief

Where a taxpayer (or his wife) is aged 65 or over the maximum at which marginal old age relief operates for 1952-53 is £766 13s. 4d. for a single person and £658 13s. 4d. for a married man, provided the income is all unearned. If some is earned, the margin is reduced because of the right to earned income relief on the earned income if old age relief is not claimed.

The disparity in the figures is bad, and arises because of the effect of reduced rate relief.

Proof:

	Single				Married			
	Without age relief		With age relief		Without age relief		With age relief	
	£ s. d.	£	£ s. d.		£ s. d.	£	£ s. d.	
	766 13 4		766 13 4		658 13 4		658 13 4	
Margin ..			266 13 4				158 13 4	
			500 0 0				500 0 0	
Age Relief ..		112				112		
P.R.	120 0 0	120	232 0 0		210 0 0	210	322 0 0	
	646 13 4		268 0 0		448 13 4		178 0 0	
At 3/- £100 ..	15 0 0	100	15 0 0	100	15 0 0	100	15 0 0	
5/6 £150 ..	41 5 0	150	41 5 0	150	41 5 0	78	21 9 0	
7/6 £150 ..	56 5 0	18	6 15 0	150	56 5 0	—	—	
9/6 £246 13 4	117 3 4	—	—	48 13 4	23 2 4	—	—	
5/8ths margin	—		166 13 4	—	—	—	99 3 4	
	£229 13 4		£229 13 4		£135 10 4		£135 12 4	

Extra-Statutory Concession—Estate Duty on Owner-Occupied Houses

Because the scope of the concession regarding estate duty on owner-occupied houses, the terms of which were given in Accountancy for February 1951 (page 64), is sometimes misunderstood, the Board of Inland Revenue has issued the following statement about it:

> Where the concession is applicable, " any increase in the market value above the prewar value is disregarded in so far as it could only be realised by a sale with vacant possession." This does not mean simply that the house is to be valued at its prewar value. In particular, the concession does not operate to exclude vacant possession value on the prewar level or appreciation in value which is not attributable to vacant possession, for example, a rise in the value of property due to a change in the value of money generally since before the war.

Income Tax Consolidation

In a lunch-time talk which he recently gave to Incorporated Accountants in London (Mr. J. A. Jackson, F.C.A., F.S.A.A., the chairman of the District Society, presiding), Mr. R. O. Nicholas, of the Secretaries' Office of the Board of Inland Revenue, said that consolidation should not alter the law, but it was a tricky business and " you can never be quite sure! " Consolidation was not codification—a term now used to cover not only consolidation, but the incorporation of the effect of cases and settled practice, also actual amendment.

Simplification did not seem practicable to Mr. Nicholas. " To be unambiguous is by no means the same

thing as being readily intelligible; on the contrary, the nearer you get to the one the farther you get from the other." Clear and comprehensive legislation would not be shorter legislation. The Finance Act, 1950, took five Sections (six pages) to amend the 18 lines of General Rule 16 in the 1918 Act (admittedly, it contained new matter). Mr. Nicholas showed the official dislike of changing the language used, because "all the present practice would be unsettled and confused." It was hopeless to try to incorporate the mass of cases in the Act, though effect was given to one or two. The Bill took more than two years to prepare but he thought it was well worth doing.

Double Taxation—Finland

The double taxation convention with Finland, signed last December, has been published as a Schedule to a draft Order in Council.

Recent Tax Cases

By W. B. COWCHER, O.B.E., B.LITT.

INCOME TAX

Private company—Business as agent and merchant for sale of machinery and explosives—Eight agencies in all—Termination of explosives agency representing 30-45 per cent. of total commissions—Compensation received for loss of agency—Payment for restrictive covenant by company and directors in respect of explosives business—Whether compensation for loss of agency a taxable receipt.

C.I.R. *v.* Fleming & Co. (Machinery) Ltd. (Court of Session (Inner House), December 19, 1951, T.R. 415) was a case on familiar lines. The appellant company and its predecessors had held for some fifty years from Imperial Chemical Industries the sole selling agency in Scotland for explosives. In addition it had seven agencies for the sale of machinery. The I.C.I. agency was for no fixed period and in 1948 it apparently resolved to take the distribution of its explosives in Scotland into its own hands. By agreement between it, the respondent company, and the directors of the latter as individuals, the agreement was terminated and £5,320 paid to the respondent company as compensation; the company and the directors in consideration of £590 undertook jointly and severally to abstain for 10 years from the explosives industry in the British Isles, and further undertook to do everything in their power to prevent any loss of goodwill or connection between I.C.I. and its customers; and in consideration of £800 assigned to I.C.I. the official explosive stores and magazines used by the respondent company. The agency loss represented 30 to 45 per cent. of the latter's business and the question was whether the £5,320 paid for the loss of an agency which could have been terminated at any time by reasonable notice was an income or a capital receipt. The General Commissioners had been equally divided and so decided in favour of the respondent company. A unanimous Court of Session reversed this decision, holding that the case fell within the *Short Bros., Ltd.* v. *C.I.R.* (1927, 12 T.C. 955; 6 A.T.C. 137) and *Kelsall Parsons & Co., Ltd.* v. *C.I.R.* (1938, 21 T.C. 608; 17 A.T.C. 87) category and not within *Van den Berghs, Ltd.* v. *Clarke* (1935, A.C. 431; 14 A.T.C. 62) and *Barr, Crombie & Co., Ltd.* v. *C.I.R.* (1945, 24 A.T.C. 55; 26 T.C. 406).

Income tax—Charity—Association formed to encourage all forms of athletic sports and general pastimes in City of Glasgow Police Force—Profits of annual sports meeting—Whether Association a charity—Difference between English and Scots law—No evidence of English law—43 Eliz. C.4 (Charities)—Income Tax Act, 1918, Section 37 (1) (b)—Finance Act, 1921, Section 30 (1) (c).

C.I.R. *v.* City of Glasgow Police Athletic Association (Court of Session, Inner House, December 19, 1951, T.R. 419) was, perhaps, the most remarkable taxation case of recent years, not so much by reason of its intrinsic importance from the fiscal standpoint, but by reason of a spirited revolt by the Scottish judges against being expected to follow without question the decisions of the Chancery Division on what are charities for income tax purposes.

The City of Glasgow Police Athletic Association, the respondent:

> had been formed to encourage all forms of athletic sports and pastimes, including angling, badminton, billiards, bowls, boxing and wrestling, and cricket, football and golf, and also table tennis, photography and art, together with the holding of dances and participation in mystery tours in motor-vehicles.

For the year ending September 30, 1950, the Association's total revenue was £2,778, derived as to £1,225 from members' subscriptions and as to £1,214 from the profit on the annual sports meeting, the latter sum being *prima facie* profits assessable under Case I of Schedule D. In *Special Commissioners of Income Tax* v. *Pemsel* (1891, A.C. 531, 3 T.C. 53) there was given a famous judgment by Lord Macnaghten in which he declared:

> " Charity " in its legal sense comprises four principal divisions: trusts for the relief of poverty, trusts for the advancement of education, trusts for the advancement of religion, and trusts for other purposes beneficial to the community not falling under any of the preceding heads,

and these four divisions have ever since been accepted as fundamental principles. It is, however, the fourth which gives rise to most of the problems. In the present case, the Special Commissioners had held that upon the basis of a group of decisions given in the Chancery Division *subsequent* to *Pemsel's* case, the respondent was a charity. Lord Carmont, after setting out the grounds of the decision, summarised them thus:

> Put in the smallest compass it is said that the beneficiaries of this charity are the public —the benefit being conferred through the creation and continuance of a happy and contented police force.

In *Pemsel's* case, which was that of an English trust, the House of Lords had disapproved of the decision of the Court of Session in *Baird's Trustees* v. *Lord Advocate* (1888, 15 R. Court of Session 682), to the effect that in Scotland the word " charity " had to be interpreted by reference to its

popular meaning in Scotland. To quote Lord Macnaghten:

> I have come to the conclusion that the expression " trusts for charitable purposes " . . . must be construed in their technical meaning according to English law.

Unfortunately, in the words of Lord Cooper in the present case:

> Ever since the days of the statute of 43 Elizabeth C.4, the Court of Chancery has been engaged, and its successor the Chancery Division still is engaged, in the light of " changing social habits," " changes in the law " and " increasing knowledge," upon the unending task of contracting or expanding by successive analogies " one by one " the concepts . . . of " charity,"

and it is a curious fact that although Lord Macnaghten's four divisions remain, his *obiter dictum* that the income tax exemption did not apply to temporary charities:

> Nor indeed has it anything to do with charity which is not protected by a trust of a permanent character,

was rejected, despite Lord Blackburn's dissenting judgment based upon it, by the Court of Session in *C.I.R.* v.. *The Glasgow Musical Festival Association* (1926, 11 T.C. 154). There, a claim to relief which Lord Macnaghten would have refused was admitted.

In the present case, what in effect the judges of the Court of Session have said would seem to be that English law is foreign law in Scotland and, following the recognised rule upon this subject, " we only know what foreign law is by being informed of it as a matter of fact " to be proved by evidence before us. We are, ourselves, as Scottish judges, quite unqualified to say how the Chancery Division would at the present time decide such a case, and, without such evidence to guide us, we are unable to say that the Special Commissioners have gone wrong.

In the circumstances, the Crown, apparently, has no option but to take the matter to the House of Lords. Nevertheless, the opinion may be expressed that the words of Lord Carmont:

> As a lawyer without any pretensions to the knowledge of any other system of law, I was at first inclined to regard the appellants' claim as somewhat, if not wholly, ridiculous,

are not an unfair description of the results which the English Courts have managed to achieve by " successive analogies one by one."

Income tax—Partnership—Cash basis—Cessation of business—Receipts thereafter—Whether assessable—Income Tax Act, 1918, Schedule D, Cases II, III, VI, General Rule 18—Coal Act, 1938, Section 7.

Rankine v. C.I.R. (Court of Session, Inner House, January 11, 1952, T.R.1) arose out of the common practice of assessing professional profits upon a basis of cash receipts instead of earnings. Apart from the case of barristers, who cannot sue for their fees, this basis cannot be insisted on by the taxpayer. Appellants were in business as mining engineers until in July 11, 1944, the firm was wound up following retiral of one partner and death of another. It had been assessed under Case II upon a cash basis. During the later years of the firm it had been heavily engaged in valuing royalties for the purposes of the Coal Act, 1938; but there had been long delay in the adjustment and payment of fees with the result that the great bulk were paid after the dissolution of the firm. *Additional* assessments had been made for 1942-3 and 1943-4 on estimates and a similar *first* assessment had been made for 1944-5.

The General Commissioners had held that for these years assessments should have been upon an earnings and not upon a cash basis; but it was agreed in Court that this method of stating the point did not pose the real issue, which was whether the receipts gathered in after the dissolution of partnership could be brought into tax computations for years prior to the cessation. The Court reversed the Commissioners' decision as regards 1942-3 and 1943-4, but held that as regards 1944-5, where only a first assessment was in question, the assessment could competently be made in such sum as represented the full amount of the profits and gains arising or accruing in respect of that period. Lord Keith, whilst concurring in this result with his colleagues, expressed the view that if the coal fees represented " a new branch of business engaged in for the first time by the appellants," he saw no reason why " in certain circumstances " one branch of the business should not be assessed on a cash basis and another on an earnings basis. " It is all a matter of agreement between the taxpayer and the Revenue." He said that there was no statutory method of assessing the profits of a trade or profession but, on the facts of the case before him, this was not a case where the dual basis could be pressed against the appellants. With his fellow judges, he agreed that there was no " discovery " where, in the light of after events, a different basis from what had been adopted would have been more profitable to the Revenue. The recent " *Leslie Howard* " case, *Stainer's Exors.* v. *Purchase* (1951 1 All E.R. 1071; 30 A.T.C. 291) was the main basis of the Court's decision.

EXCESS PROFITS TAX.

Excess Profits Tax—Avoidance or reduction of liability—Cinema business carried on by company at loss—Lease of cinema to second company owning a number of cinemas—Purchase of all shares in first company mainly by second company and partly by controlling shareholder of second company—Surrender of lease by second company—Whether main benefit was avoidance or reduction of liability to Excess Profits Tax—Finance (No. 2) Act, 1939, Sections 12 (4), 16 (3)—Finance Act, 1941, Section 35—Finance Act, 1944, Section 33 (3).

Star Cinemas (London), Ltd., and Majestic (Derby), Ltd. v. C.I.R. (C.A., January 23, 1952, T.R. 49) was noted in our issue of December 1950, at page 438. Romer, J., had upheld the decision of the Special Commissioners that the " main benefit " to be expected was the avoidance or reduction of liability to tax, and a unanimous Court of Appeal affirmed his decision. As stated in the original note, the dominant fact was that at the time in 1943 when the lease was surrendered, the shares in the *Majestic* company, which owned the freehold of the cinema, were in the same ownership as the shares of *Star*, the lessee company, although this was not the case at the time the lease was granted in 1940. By reason of the cinema reverting to the *Majestic* company there was a net " benefit," taking the two companies together, of some £2,000 per annum. As against this, it was argued that there were other " benefits " of greater importance although intangible in character. Giving the judgment of the Court, Evershed, M.R., said it was a question of fact upon which the Special Commissioners had evidence for their finding.

" Main benefit " expectant upon a transaction is a question of fact and is dependent upon the special facts of each case. As is not unusual since the Finance Act, 1944, the Revenue not having to prove " purpose " in order to succeed did not challenge the evidence of the " owner " of the business that avoidance was not the main purpose or one of the main purposes. This being so the following passage from the judgment of Evershed, M.R., would seem to be worth noting:

> As I listened to the argument of the Crown it seemed at times to have been obliquely suggested that . . . this Court should not assume that Mr. Eckart was not concerning himself in his mind with the avoidance of

excess profits tax. It seems to me that that is quite wrong. It is open to the Crown, if they wish or can, to try to prove as a fact that the main purpose or a main purpose is to avoid tax. Here it was quite plain they gave up any attempt so to prove. . . . the Crown cannot be heard to say other than that, so far as motive was concerned, excess profits tax had nothing to do with it.

It will be observed that the relative sections only concern themselves with purposes which are " main." There may, however, be subsidiary purposes which in so far as attained might, it would seem, be an element in arriving at " main benefit." Nevertheless, it is obviously desirable that if any " purpose " is suggested, this should be done plainly and openly at the hearing of the appeal.

SPECIAL CONTRIBUTION

Special Contribution—Ordinary residence and domicile in United Kingdom for ten years until November 1947—Domicile of choice in Bermuda thereafter—United Kingdom domicile for seven months in 1947-8—Whether exempt—Finance Act, 1948, Section 47.

Mitchell *v.* C.I.R. (Court of Session, Inner House, December 11, 1951, T.R. 433) depended upon the interpretation to be given to the exemption from the Special Contribution imposed in respect of investment income by Section 47 of the Finance Act, 1948, contained in sub-Section 3:

> Contribution shall not be charged in the case of an individual who in the year 1947-8 was not domiciled in the United Kingdom unless he was in that year resident therein and had been ordinarily resident therein throughout the period of ten years ending with the year 1947-8.

The appellant had been domiciled and ordinarily resident in the United Kingdom for more than ten years when, in November 1947, he took up permanent residence in Bermuda. He contended that he was within the exemption because from November 1947 to April 1948 he was not domiciled in the United Kingdom. The Special Commissioners had held that to qualify for exemption appellant had to establish non-domicile in 1947-8 and that he failed because he had United Kingdom domicile for seven months. They had also held that his claim must fail on the second ground because he was resident in the United Kingdom in 1947-8 and had been ordinarily resident therein " throughout the period of ten years ending with the year 1947-8." The Court of Session unanimously approved their decision upon the first point. The second did not, therefore, fall to be decided and opinions were reserved. It would seem, however, somewhat difficult to say that " throughout " the ten years ended April 5, 1948, appellant had been ordinarily resident in the United Kingdom, despite the fact of his having moved therefrom in November 1947. The fact that for ordinary tax liability he would be deemed to be resident for 1947-8 would seem to be far from deciding the point in the Revenue's favour.

ESTATE DUTY

Marriage Settlement—Annuity to wife, balance of income to husband—Whole income payable to survivor for life with remainder to children—Death of husband—Whether entirety of trust fund liable to Estate Duty as passing on death—Succession Duty Act, 1853, Section 38—Finance Act, 1894, Sections 1, 2, 5 (3); Finance Act, 1938, Section 48.

In re Lambton's Marriage Settlement (Ch., December 19, 1951, T.R. 391) was a case similar to the Scottish case, *Lord Advocate* v. *Angus' Trustees* (noted in our issue of December 1951, page 456), and although both Courts came to similar decisions, the curious feature is that the enactment which was held to decide the matter in the case under review—Section 48 of Finance Act, 1938—was not mentioned in the judgment of Lord Blades in the Court of Session (Outer House).

Under the marriage settlement of the deceased certain funds were settled on trust during joint lives to pay out of the income an annuity of £400 to the wife and to pay the rest to the husband, the survivor (during widowhood in the case of the wife) to take a life interest in the whole income. The husband died in 1949 when the value of the trust fund was rather over £17,000, and the amount of capital necessary to satisfy by its income the wife's annuity was about £11,000. The Revenue claimed duty upon the whole fund as passing on the death, whilst the trustees claimed that a deduction should be made upon the " slice " principle of the £11,000. It was admitted that for about thirty-five years the Revenue had followed the latter method in deference to what was considered to be the decision of the Court of Appeal in *A.G.* v. *Glossop* (1907, 1 K.B. 163). It was now, however, contended that the practice was contrary to the House of Lords' decisions in *In re Earl Cowley* (1899, A.C. 198) and *De Trafford* v. *A.G.* (1935, A.C. 280, 14 A.T.C. 71), and that *Glossop's* case should be disregarded. As will be seen, Harman, J., was able to decide for the Revenue without doing this.

He said it was clear that the widow by her husband's death was the richer only by the income of the settled fund less £400 a year. In law, however, the annuity had ceased and a new interest arisen, a life interest in the whole fund. In *Earl Cowley's* case a son's annuity had ceased when, on his father's death, he had succeeded to a life interest in the estate, and it had been held by the House of Lords that there could be no deduction from the value of the estate passing on the death in respect of the annuity. In *De Trafford's* case the facts and decision were similar and in both cases a feature was that as here the annuity was not charged upon any specific items of the trust income. As to *Glossop's* case, the facts, whilst otherwise similar, differed in that the trust fund consisted partly of the husband's and partly of the wife's property and it had been held that on the death of the husband duty was only payable upon the wife's fortune as brought into the settlement less the " slice " which produced the £400 annuity. Harman, J., pointed out that the decisions in *Glossop's* case were based upon the exemption given by Section 5 (3) of Finance Act, 1894, as it then existed, an enactment which had not been brought to the notice of the Courts in the *Cowley* and *De Trafford* cases. The sub-Section had, however, been amended by Section 48 of Finance Act, 1938, and the exemption now only extended to cases where any claim to duty would be based only upon the failure or determination of an interest before it became an interest in possession. He held that in the case before him the failure of the husband's interest in the slice did not bring about the passing of the property, with the result that the decision in *Earl Cowley's* case applied.

Estate duty—Settlement—Trust for charitable purposes—Power of Settlor during life to direct and approve application of income of charity—Power of Settlor to require trustees to apply property including money of trust in purchase or exchange from settlor of real or personal property—Whether a reservation of benefit to settlor—Finance Act, 1894, Sections 1, 2 (1) (b), (d)—New South Wales Stamp Duties Act, 1920-1949. Section 102 (2) (a), (c), (d).

New South Wales Stamp Duties Commissioner *v.* Way (Privy Council, December 10, 1951, T.R. 427), was a case which, although not binding on the Courts of this country, will no doubt be followed in so far as the decision is applicable in principle. The deceased, who died in 1945, had in 1928 transferred and assigned to himself and two others as trustees specified funds and property and, in effect, the trust fund was to be held on trust to apply it and its annual income towards lawful charitable purposes under the heads of education,

relief of poverty, and the general benefit of the Australian community. During the life of the settlor the application of the trust fund, although " in the absolute discretion of the trustees," was to be subject to his direction and approval. By another clause of the settlement the trustees:

> may whether during the lifetime of the settlor or afterwards and shall during the lifetime of the settlor if he so directs

use the trust fund for the purpose of acquiring by purchase or exchange real or personal property of the settlor at a price at least five per cent. below its independent valuation.

The Supreme Court of New South Wales had found in favour of the Commissioner, but the High Court of Australia had reversed this and the Privy Council affirmed the latter's decision. It is not necessary to set out here the relevant New South Wales enactments. There were two issues in the case. It was argued that as during his life the application of the trust fund was controlled by the settlor, the beneficiaries of the charity would be a different group during his lifetime from those who would benefit after his death, with the result that the decision in *Burrell and Kinnaird* v. *A.G.* (1937, A.C. 286, 15 A.T.C. 605) should be applied and the whole fund be regarded as " passing " within Section 1 of the Finance Act, 1894. Lord Radcliffe, giving the decision of the Council, said that from beginning to end it was a trust for charitable purposes and those who benefited were " less beneficiaries than objects of the charitable purpose." This circumstance alone distinguished the case from *Burrell*; but there was no separate trust for any new group of owners on the settlor's death and a mere right or duty of exercising a discretion or taking a decision in administration was not itself a trust. Upon the second point, the Council upheld the view of the High Court of Australia that the power of direction was a fiduciary one and a stipulation that if the trust did acquire any of the settlor's property if was to be at the latter's financial disadvantage was not one that amounts to " an interest in or benefit out of or connected with the trust property." Considerations of space preclude an adequate summary of Lord Radcliffe's judgment upon the second point of the case.

Tax Cases—Advance Notes

By H. MAJOR ALLEN

HOUSE OF LORDS

C.I.R. *v.* Gordon. March 26, 1952.

The facts in this case, and the decision of the Court of Session, were reported in ACCOUNTANCY for September 1950, at page 329. The House of Lords dismissed the Crown's appeal.

Reynolds and Gibson *v.* Compton. March 26, 1952.

The facts in this case, and the decision of the Court of Appeal, were reported in ACCOUNTANCY for December 1950, page 440.

The House of Lords dismissed the Crown's appeal.

COURT OF APPEAL (Singleton, Morris and Birkett, L.JJ.)

Conway *v.* Wingate and another. March 5, 1952.

Facts.—An outgoing partner agreed to sell his share in a partnership to an incoming partner. The latter, together with a continuing partner, agreed to discharge " all liability (including that of the vendor personally) for income tax, E.P.T. and property tax of and relating to the said partnership down to the date of " the agreement. The outgoing partner claimed a declaration that the other partners were liable to discharge his liability to sur-tax in respect of his share in the partnership profits.

Decision.—Held, that although sur-tax is an additional income tax, it could not be " income tax of and relating to the partnership," since it was a liability of the individual partner, not of the firm. Accordingly, the continuing partners were not liable to discharge the outgoing partner's sur-tax liability.

CHANCERY DIVISION (Vaisey, J.)

McIntosh *v.* Manchester Corporation. March 5, 1952.

Facts.—The corporation incurred capital expenditure on the construction of industrial buildings and structures forming part of its waterworks undertaking. The Inspector of Taxes refused an annual allowance under Section 2, Income Tax Act, 1945, in respect of part of the expenditure on the ground that certain work carried out was " cutting " within the meaning of the proviso to Section 14 (1) (*b*).

The corporation contended that excavation, e.g. for reservoirs, was not " cutting " since that word was to be construed as related to operations which produced " cuttings," i.e. open ways through land, such as railway cuttings.

Decision.—Held, that " cutting," like " tunnelling " and " levelling," was descriptive of a process, and not of its end-product. Accordingly, the Inspector had rightly refused the allowance.

Wood *v.* Black's Executors. March 5, 1952.

Facts.—B., who carried on (1) a trawling business, (2) a cold store business, (3) a coal and engineering business, (4) a business of buying and selling stores, and (5) a land-development business, died in June 1942, leaving a will which empowered trustees to wind up the businesses, and provided for their being managed until winding-up by a person unnamed.

Administrators of the estate were appointed pending litigation, and they realised the assets between 1943 and 1949. The General Commissioners found that the various businesses had continued after B.'s death, but held that such continuation was only for the purpose of winding them up. They accordingly held that there was no trading by the administrators.

Decision.—Held, (1) that the facts found by the Commissioners amounted to a finding that the administrators were trading, and (2) that the profits realised were liable to income tax.

CHANCERY DIVISION (Donovan, J.)

Fenwick *v.* C.I.R. March 7, 1952.

Facts.—This case followed that of the same name reported in ACCOUNTANCY for January 1951, at page 24.

The Special Commissioners, to whom the case had been remitted to consider the relief due under Section 61, Finance Act, 1948 (Special Contribution), considered the years 1946 and 1947 in order to arrive at a " full year's income " within the last part of Section 61 (1). The dividends paid in 1946 were equal to those paid in 1947-48: the dividends paid in 1947 were less than those paid in 1947-48. As, however, the total dividends paid in 1947-48 were no greater than those paid in 1946, they refused any relief.

Decision.—Held, that a " full year's income " was to be ascertained by a day-to-day apportionment of the dividends paid in 1947-48 over the period *for* which they were paid, and that only the portion falling within the fiscal year 1947-48, together with

a similarly apportioned part of any subsequently declared dividend, could be included as part of the appellant's investment income for Special Contribution purposes.

Phillips *v.* Whieldon Sanitary Potteries, Ltd. February 29, 1952.

Facts.—The company's factory abutted upon a canal. An embankment of bricks and earth between the factory wall and the canal kept out the water. Because of mining operations in the neighbourhood, the foundations of the factory subsided, as did the embankment, so that water came up to, and seeped through, the factory wall. The company eventually constructed a new embankment of concrete and iron to a height of two feet above water level. The Inspector contended that the cost of construction was a capital expense and not allowable. The General Commissioners held that the construction was a replacement and the expense allowable.

Decision.—Held, that the expenditure was not incurred in repairing the old embankment, but was a capital expense.

The Student's Tax Columns

CAPITAL ALLOWANCES—INDUSTRIAL BUILDINGS

AN "INDUSTRIAL BUILDING" IS DEFINED IN THE INCOME Tax Act, 1952, Section 271, and in case of doubt reference must always be made to that Section. It includes buildings or structures in use as mills, factories and similar premises, or for a transport, dock, water, electricity, etc., undertaking, or for the purposes of a trade consisting in the manufacture or processing of goods or materials, or for the purposes of a trade consisting of storage of foods, etc., used in manufacturing or processing, or on their arrival in the United Kingdom, or for mining, etc., or for agricultural operations on land not in the occupation of the person carrying on the trade.

It also includes buildings or structures provided for the welfare of the workers in any of the above trades, and sports pavilions provided for any trade (not only the above).

The term "industrial building" does not include a building used as a dwelling-house, retail shop, showroom, hotel or office, or for any purpose ancillary thereto.

If part of a building is and part is not within the definition and the capital expenditure on the part not within it does not exceed one-tenth of the whole, then the whole is regarded as within the definition. If it exceeds the one-tenth, there must be an apportionment between the industrial and non-industrial building; only on the former will allowances be given.

Expenditure Included

Capital allowances are given in respect of capital expenditure on the construction of an industrial building occupied for the purposes of any of the trades mentioned. Expenditure on the acquisition of the land, and on preparing, cutting, tunnelling or levelling land, are not included, but the cost of preparing the land to receive the foundations (other than cutting or tunnelling) is included if it will be valueless when the building is demolished.

The Allowances

If the capital expenditure is incurred on or after April 6, 1946, and not later than April 5, 1952, the allowances are an initial allowance of 10 per cent. and an annual allowance of 2 per cent. of the expenditure, till the whole is written off. In the case of expenditure after April 5, 1952, there will only be annual allowances. The allowances are given in the year of assessment relevant to the basis period in which the expenditure was incurred. The basis periods are subject to the same rules as in connection with capital allowances for plant and machinery. The basis period for any year of assessment is the period the profit of which becomes the basis of assessment for that year. If, therefore, the landlord incurs the expenditure on premises used in the tenant's trade, the basis period is the actual year of assessment, since the landlord is assessed only under Schedule A on the premises. If, however, the expenditure is incurred by the tenant (or an owner-occupier) the accounting period the profits of which form the basis of the assessment is the basis period.

Illustration: In the year ended December 31, 1949, a manufacturer added a wing to his factory, on land already owned, at a cost of £14,000. He would be entitled in 1950-51 to an initial allowance of 10 per cent. and an annual allowance of 2 per cent., a total of £1,680, followed by an annual allowance of £280 till the whole is written off.

Balancing Allowances and Charges

Should the building be sold, or destroyed by fire, etc., while it is an industrial building, a balancing allowance or charge will arise, unless the event occurs after the end of the basis period for the fiftieth year of assessment after that in which the building was first used. There is no allowance or charge if the sale occurs after the building has ceased to be used

industrially, but temporary disuse does not count as non-industrial use.

If there are no sale, salvage or compensation moneys, or they are less than the " residue of the expenditure " (i.e. the written down value), a balancing allowance of the difference is given. If the sale, etc., moneys exceed the written-down value, there will be a balancing charge, but not necessarily on the whole excess.

This arises because it may be that the building was not used the whole time as an industrial building. In that event, annual allowances will have been given for the years of use as an industrial building, but not for the other years. Nevertheless, there must be written off (though not allowed as annual allowances) the notional amount of the annual allowances. In such a case, the balancing charge is that proportion of the excess of the proceeds of sale, etc., over the written-down value, which the number of the " relevant years of assessment " for which an allowance was given bears to the total number of the relevant years of assessment. The " relevant years of assessment " mean all years of assessment after that in which the building was first used, up to and including that in which the event occurs which gives rise to the balancing charge. In no case can the balancing charge exceed the allowances actually granted.

Illustration:

	£	£
Factory built in the year ended June 30, 1946—		
cost of construction		30,000
Initial allowance 1947-48	3,000	
Annual allowances 10 years to 1956-57 at £600 p.a.	6,000	
Then the building is used for non-industrial purposes for 8 years:		
Notional writing-off, 8 × £600	4,800	
Again used industrially for 9 years and sold for £25,000 in May 1973:		
Annual allowances 9 × £600 to 1973-74	5,400	
		19,200
Written-down value		10,800
Proceeds		25,000
Excess		£14,200

The idea of a balancing charge is to take away excessive allowances. But the amounts written-off have not all been allowed, so it would not be right to make a balancing charge on £14,200. In this case, allowances have been given for 19 years out of 27, and the balancing charge is $\frac{19}{27} \times £14,200 = £9,992$, in 1974-75.

(Had the sale been before April 6, 1973, the " relevant years " would not have included 1973-74, since the sale was before that year, and the fraction would have been 18/26ths. This is an odd feature of the definition of relevant years.)

The Position of the Purchaser

The purchaser, if using the building industrially, is entitled to annual allowances for the unexpired balance of the period of 50 years since the expenditure was originally incurred. The amount with which he starts is the vendor's written-down value less any balancing allowance or plus any balancing charge arising on the sale. This amount is spread evenly over the residue of the 50 years.

Illustration: The purchaser in the previous illustration would usually be entitled to an annual allowance of $\frac{1}{23} \times (£10,800 + £9,992) = £904$, unless his accounting period in which the purchase occurred ended after April 5, 1974 (in the basis period for 1975-76), when the denominator would be 22 and not 23.

Pre-1946 Expenditure

Special rules apply to expenditure between April 5, 1944, and April 6, 1946. For the purpose of initial allowances it can be deemed to be made on April 6, 1946.

In respect of any capital expenditure on an industrial building at any time prior to April 6, 1946, annual allowances at 2 per cent. will be given from that date until the expiration of 50 years from the year of assessment in the basis period for which the expenditure was incurred. Notional allowances are written off for all years up to 1945-46 in such cases, unless the actual allowances then allowed were more, when the actual allowances are written off. In no case can the total notional plus actual allowances exceed the original capital expenditure in question (irrespective of any intermediate sale prices).

Illustration:

Building constructed in the accounting year ended December 31, 1925 (basis period for 1926-27). Sold in 1949.

	£
Cost 1935	26,000
Notional allowances:	
1926-27 to 1945-46, 20 × £520	10,400
	15,600
Annual allowances:	
1946-47 to 1949-50, 4 × £520	2,080
	13,520
Proceeds of sale	24,000
Excess	£10,480

Balancing charge $\frac{4}{24} \times £10,480 = £1,747$, in 1950-51.

Annual allowance to purchaser making up accounts to December 31: $\frac{1}{26} \times (£13,520 + £1,767) = £588$.

(£587 in the last year of allowance.)

For some years prior to 1946-47, a special " mills, factories, etc." allowance was given in respect of certain buildings. In the case of any building subject to such an allowance for 1945-46, the operation of the above provisions is postponed for 10 years (to April 6, 1956) unless the taxpayer elects to have them brought in earlier, in which event the beginning of the year of assessment in which he claims will be substituted for April 6, 1956. This postponement is useful where the 50-year period has already elapsed (so that no annual allowances would be given in any event) and in certain other special cases.

The Month in the City

Market Optimism

THE EARLY PART OF APRIL HAS BEEN, ON the whole, a period of recovery in the stock market. By the middle of the month, most sections had made up most of the fall of the preceding weeks since the announcement of the rise in Bank rate. The explanation of the recovery is probably almost wholly technical. The market always fears the worst and often recovers when the extent of the expected damage is revealed. In addition, investors tend to regard what is familiar as less dangerous than what is new to them. Even the worst shock wears off in time, and it has to be admitted that there has been much news that was, on balance, good. The main factor has, however, almost certainly been the holding back of new borrowers. Industrial issues have been few and small and none of the borrowers in the gilt-edged market has so far come forward. However, the amounts to be raised in this market are very important. A number of Commonwealth countries have to raise money; and more important than all these are the needs of the nationalised industries, particularly electricity. It is difficult to see how the funding of the vast overdrafts of this industry can be avoided without very disturbing results and if this is done by any means other than an issue of long-dated stock to the public the results will almost certainly be inflationary. If we have inflation, fixed interest stock ought to go out of favour. If a large issue is made it will almost certainly depress the general run of prices for some time. It is difficult to escape the conclusion that investors have been rather too hasty in restoring the pre-Budget level of values.

The one section which has been consistently weak is kaffirs, where disappointment as to the price of gold in the free market, coupled with fears of a strike among native labour, has caused a continuous sagging. For the rest, German bonds have gone out of favour, to be replaced by Japanese and by some gambling in frank "outsiders." The net effect is shown by movements in the indices compiled by the *Financial Times*. These are, between March 21 and April 23, improvements in fixed interest securities from 102·69 to 105·32, in gilt-edged from 93·24 to 94·49 and in equities from 106·7 to 113·1, while gold mines fell from 99·59 to 90·26.

Halting the Drain

With this *caveat*, we can turn to some of the better news of the month. First, if the Butler policy has brought little sign of internal adjustment, it has produced a change in the overseas position. The deficit in gold and dollars for the month of March was a little less than a quarter of that for January. It is true that the amount would be doubled if some mainly non-recurring items were excluded and that it would be raised still further but for some covering by those who had gone short before the situation was taken in hand by the present Government. Almost the whole of the improvement dates from Budget day and it has been possible, on more than one occasion since then, to buy, if not gold, at least dollars for the Exchange Equalisation Account. It is probable that the reserve was at one time lower than the $1,700 million at which it stood on March 31. So far, so good. But there is a very long way to go before the deficit can be reduced to tolerable proportions and still more to be done before the position is reached, as it must be, in which this country is able both to cancel many of the import cuts and to add to its reserves. There is only one way of doing that: by increased output per man-year with the tools at present available. It would be easier to accept the recent recovery in industrial shares if there were more evidence that this need is generally realised. However, there is some evidence—it may very well represent the exceptional rather than the normal experience—that there is less voluntary absenteeism in some industries and a greater inclination to work hard while on the job. That is the road to lower costs and to some reduction in prices without any cut in wage rates.

E.P.L. Concessions

The publication of full figures for the overseas account of last year is also a factor of some importance in forming a view of the probable outlook for British exports in the next few months. It has to be admitted that, combined with the cuts in the imports of the southern Dominions, some of these figures are not encouraging, and it may well be the case that some other industries will experience a period of difficulties of a similar nature to, although less acute than, those of the textile and clothing trades. For the moment, in its optimistic frame of mind, the investing public has paid more attention to the effects of E.P.L. and the promises that there may be some amendments on the Committee stage of the Finance Bill. It is evident that Mr. Butler, having once accepted the need for this dangerous impost, was determined that it should not be a fake. It really is designed to take a great deal away from industry, as is revealed by the fact that its gross yield in a full year is estimated at £200 million. Nonetheless, the promise to reconsider some of the more glaring anomalies, which has been forced upon the Cabinet by its back benchers, has had the effect of making this tax seem much less objectionable than it was. This is probably again an instance of optimism. It will certainly perpetuate the inability of industry to make good the capital consumption which has almost certainly occurred during the period of sharply rising prices. The fact that, if and when it is withdrawn, profits tax will take less than it did is a poor compensation. From the interest of the country at large, no less than of those who invest in risk capital, both the method of determining taxable profit and the principle of imposing special taxes on profits so determined ought to be drastically changed.

Convertibility

Meanwhile, there has been a good deal of interest in the foreign exchange market surrounding the question of the convertibility of sterling. It has already been pointed out that the official rate for sterling in terms of dollars has improved almost to gold import point. There has also been a very general improvement in terms of other hard currencies and in the rates for those kinds of sterling, such as "transferable" and "security" sterling, which suffer from certain disabilities. This improvement has now reached a point at which it may scarcely pay to carry through some of the "grey" market transactions which are thought to lose this country a considerable volume of dollars each month. It is rather surprising that just at this time there should have arisen—or at least should have come into the open—a dispute between two views among the technicians in this market. According to one view, this country should do everything in its power to build up a reserve of gold and dollars which will make it too strong to be assailed, and, with this in mind, they would clap on even firmer controls. The other school sees salvation rather in efforts outside the exchange market, coupled with increased freeing of the rate—within limits—as a demonstration of confidence. The choice between these two alternatives is by no means a matter of academic interest to anyone engaged in trade and industry, or for that matter to the investor and the general public.

Points from Published Accounts

Undistributed Profits Relief

NOW THAT THE GOVERNMENT HAS MARKED its approval of undistributed Profits Tax relief, it is worth noting that reserves created by companies since this tax was born are to a large extent illusory. The great majority of companies, while aware that this is so, do not comment on the fact.

Typhoo Tea (Holdings), however, makes matters thoroughly clear for shareholders in a footnote to the consolidated balance sheet. This states that the provision for taxation does not include additional profits which would be payable in the event of a subsequent distribution of retained profits and reserves, and which would amount to approximately £276,700 before allowing for such income tax relief as might be obtained thereon. This is particularly commendable, as the company was made public after the end of the last war, and has not been able to build up "real" reserves on the scale that it could have wished for.

A Fine Report

The accounts of *The Steetley Company* are recommended for study by the student who wishes to see how to set the facts out simply and effectively. It is because they set such a very high standard that it is unnecessary to comment on them! They are sandwiched between a very full statement by the chairman, and a profusely illustrated description of precisely what refractories are. The information in a chart showing the allocation of the trading surplus in 1938, 1945 and 1951 is worth reproducing:

	1938	1945	1951
	Percentages		
Taxation ..	33	61*	58
Reserves ..	19	16	27
Dividends ..	48	23	15

* Including E.P.T.

The difficulty of financing plant replacement without recourse to additional capital is demonstrated by the fact that the cost has multiplied 4½ times since 1938. The year's results are summarised in a panel, along with comparative figures. There is a history of the industry, plus a diagram showing how the products are made and how they are used. This is a first-class production on which all associated with it are to be heartily congratulated.

A Twofold Advantage

The report and accounts of *Dawber, Townsley* cover four pages. With one page blank, one containing the directors' report for the year, and another containing the notice of the meeting, the document conveniently folds twice into three sections so that shareholders can open it up and study the accounts along with the chairman's speech. Admittedly the company is spared the need of presenting consolidated accounts, but the advantages of this form of presentation are obvious. The accounts are clearly and simply compiled.

Revaluation of Assets—One View

There are several ways of dealing with the fixed assets replacement problem, and the method adopted by *Ford Motor* clearly deserves study since the company has an income of £68 million and a balance sheet total of £38·9 million. During 1951 a comprehensive survey of the fixed assets was made in order to assess the estimated life and the replacement cost thereof. As a result, it was estimated that the sum required to meet the proportion of the excess replacement cost appropriate to the expired life of the fixed assets was £14,641,000 at current prices. A reserve for fixed assets replacement had already been created, and it has been augmented by a transfer of £2,750,000 from the latest profits. In addition, based on the survey, the directors have formed the opinion that the accumulated amount set aside for depreciation and obsolescence at January 1, 1951 (the beginning of the financial year) was £2,461,141 in excess of that reasonably necessary for the purpose, and this amount has also been transferred to fixed assets replacement reserve. It is stated that the amount charged for depreciation and obsolescence in the accounts "is the sum considered by the directors to be appropriate in respect of the year's usage thereof, based upon original cost and the revised rates adopted as a result of the survey." The chairman indicates that the company proposes from time to time to make similar surveys to take stock of the position and to reassess the depreciation rates.

—And Another View

The chairman of *Rugby Portland Cement*, Mr. W. L. Halford Reddish, F.C.A., is eminently qualified to have ideas of his own on this subject. In his review circulated with the accounts he states that calculations have been made as to what it would cost to build the whole of the plant and replace the remainder of the fixed assets at current prices. The total would be about £6½ million and, says Mr. Reddish,

> If we were to take this figure and then depreciate each asset for the number of years it has been in existence at a rate which would write it off over its useful life, there would be a surplus over book value of at least £1,500,000 at December 31, 1951.

He then calculates the net assets total using this figure, and relates to it the profits before taxation as a percentage. For political reasons this relationship has obvious importance, and while politics should not in theory weigh in any professional action, accountants may concede that the figures given by Mr. Reddish are of greater value than those set out in the accounts. Running contrary to this opinion, Mr. Reddish states:

> I do not consider that these asset valuations should be introduced into the balance sheet, nor that the depreciation charge should be based in future on these figures, which in any case are unlikely to bear much relation to facts at the time when renewals actually take place. Our annual charge for depreciation is in our view higher than is strictly necessary to write off the assets during their effective life—many, in fact, have already been written off. We have always followed what we believe to be a conservative financial policy, and we intend to continue so to do in the real interests of all concerned. The problem of asset replacement created by the sharp inflation of recent years is not in my view one to be dealt with by juggling with the depreciation charge. The two questions of depreciation and of currency inflation are quite distinct.

Both companies are at least in agreement in deciding against bringing fixed assets into the balance sheet at replacement cost.

Industrial and Commercial Finance Corporation Ltd.

A branch of the Industrial and Commercial Finance Corporation Ltd. has been opened in Manchester, at India House, 73, Whitworth Street. The branch will bring within convenient reach of the north-west the Corporation's facilities for providing industry with long-term share and loan capital in amounts ranging from £5,000 to £200,000.

New British Tabulating Machines Factory

Last month the Rt. Hon. Sir Basil Brooke, the Prime Minister of Northern Ireland, paid an official visit to the new Castlereagh factory of the *British Tabulating Machine Co. Ltd.* near Belfast. Although the factory has been in operation for almost three years, there has been no official opening before now because the company was waiting until the whole factory was moving into full production. Today there are 940 workers and within three or four months this should reach 1,200, with an eventual capacity of 1,500. The factory makes ancillary equipment for the "Hollerith" range of punched card accounting machines.

Publications

RANKING AND SPICER'S COMPANY LAW. Ninth edition by H. A. R. J. Wilson and T. W. South. (*H.F.L. (Publishers), Ltd., London. Price 25s. net.*)

Most of the many compliments to which this work is entitled have been paid in reviews of previous editions. The ninth edition covers the Companies Act, 1948, and includes useful chapters on the winding-up of companies. Considerable re-writing has been necessary.

At 25s. the book is extremely good value. In handsome binding, it contains nearly 600 pages, and quotes about 700 cases. It is doubtful whether a completely new work could bring together such a wealth of information at the price.

Company law is fast becoming intricate and extensive. The same sharp definition of meaning that is required by income tax law is now essential to the appreciation of company law.

A close study of this book makes one wonder whether it will ultimately require re-shaping. Its very completeness and integrity may eventually defeat its object. Possibly the gradual extension of company law has over-burdened an otherwise ideal set-up, so that two volumes may be required to perform its task. Some of the more elementary information of a general nature could be allotted to a preliminary book for students, the remainder forming a concise book of reference for the practitioner and an advanced study for examinees. The large type, which is so useful to the wet-towel student, might be reserved for the elementary book.

A few items could be omitted altogether, or indicated in appendices. For example: the address of the Board of Trade for application by auditors without special qualifications, particulars of procedure in connection with certain arrangements not completed before the passing of the 1948 Act, and the Court procedure described on page 285. It is also suggested that the reference to exempt private companies on page 16 should be accompanied by some explanation of the term; and on page 189 it could be stated that private companies are not required to hold a statutory meeting (it is merely implied on page 191).

The chapter on meetings and their functions is particularly illuminating; and the reference to the advantages of registering as an *unlimited* company was warmly received by at least one reader.

As in earlier editions great care has been observed in matters of detail; the numbering of chapters and paragraphs at the head of each page is a good example. It was also a useful idea to give the list of 150 penalties which appear in the 1948 Act. Incidentally, this is not the only statute to which reference is made; about 70 others are listed and quoted.

Since it surveys the present state of the law so thoroughly and may be relied upon as a thoroughly useful guide for both practitioners and students, this edition will certainly remain a standard work for some time to come. D. E. B. S.

EXAMINATION NOTEBOOK FOR ACCOUNTANCY EXAMINEES. By the B.C.A. Tutors. (*Textbooks, Ltd., London. Price 12s. net.*)

This useful little volume is designed, in the words of the preface, "to serve a two-fold purpose: to form a framework for the accountancy student's own notes and to facilitate pre-examination revision in a systematic manner."

These objects are, in the main, quite admirably achieved, the book being divided into seven sections, dealing with general accountancy, partnership law and accounts, limited company accounts, holding companies and consolidated accounts, executorship law and accounts, auditing and cost accounts. The matter is well arranged under distinctive headings with the especially important portions in heavy type. A useful feature is the provision of blank pages at the end of each section for the student's own notes. It is perhaps a pity that a larger number of these could not be provided, but high stationery costs were probably a deterrent.

It is no doubt extremely difficult for the author of a work of this kind to decide what matter may safely be left out. But it is a somewhat surprising omission that there is no general treatment of the principles of taxation: this seems a serious fault considering the important part which the subject plays in the syllabuses of the examining bodies. It is true that there are references to specific aspects of the subject in the sections on limited company accounts and executorship law and accounts, but these can hardly be regarded as adequate. It may have been considered that the field was too vast to admit of treatment in condensed form in this volume or that frequent changes in the law on the subject rendered it inadvisable to deal with it. Nevertheless a considerable part of the study does not change, and the fact that the correspondence colleges, including the college responsible for this volume, find it possible to produce notes for their students proves that some degree of condensation is feasible. It should be added, however, that the preface mentions that "special subjects" are to be dealt with in a companion volume. (It might with advantage have been indicated clearly on the front cover that this is Volume I only and not a complete examination notebook).

The word "law" is omitted from the heading of the section dealing with limited companies, though a considerable amount of law is in fact included in the text. Similarly the heading of the section on holding companies and consolidated accounts does not indicate that the section in fact treats of some of the law on the subject. It is true that the preface states that legal subjects will be dealt with in Volume II, but as it has evidently been found impossible to neglect legal aspects entirely in the first volume, it could properly have been claimed—and noted—that the volume was more comprehensive than a purely accountancy primer.

These criticisms apart, the work is one of obvious value to the student today and should have a ready sale. B. B. MC. G.

A PRIMARY COURSE IN PRINTERS' COSTING. By F. C. Avis. (*Published by the author and obtainable from 26, Gordonbrock Road, London, S.E.1. Price 15s. net.*)

The 112 pages of this very useful book are well worth the study of anyone who wishes to have an introduction to costing methods for printers. Particularly will it prove helpful to the student cost accountant or estimator in a printing office and it is a good preliminary to the text-book issued by the British Federation of Master Printers, which it closely follows. The author has written for those who have no previous knowledge of costing, and he therefore takes pains to go into elementary points, and gives the arithmetic of the calculations.

The method of allocating all expenses to departments as a basis for the departmental rates and the compilation of job costs is dealt with in detail, with excellent examples worked with the answers at the end of each chapter. This feature of example and answer is bound to make the student's task easier, and must prove helpful. There is a useful chapter on departmental and machine hour rates (this chapter, incidentally, might have had a more appropriate title).

Since the work follows the official text-book, it is not surprising to find that interest on capital is included as a charge. The Federation Cost Accountants have always argued for the inclusion of interest, but the authorities are by no means unanimous, as all professional accountants know. A word or two on the topical question of

valuation of fixed assets for the purposes of calculating depreciation for inclusion in the machine hour rates might have been helpful, although the author may have considered this rather advanced for the elementary student.

The various production and budgeting forms used in the official system are described fully, and there is a chapter on the estimate form. It was wise to include this chapter, in view of the close relationship between estimating for a job and the comparison of the job cost with the estimate. In the chapter on the job cost sheet there is a specimen of such a sheet, at the bottom of which is a summary of the total cost. Management may consider it an improvement to include in this summary the selling price, thus showing at a glance the difference between cost and selling price, with the percentage of profit on cost as added information.

The author, who has obviously inside experience of the printing industry, which makes the book more authoritative, has filled a gap in printing costing literature, and supplied a valuable introduction to this specialised field. G. D. A.

THE STUDENT'S MACHINE ACCOUNTING TUTOR. By O. Sutton, M.S.M.A., A.C.I.S. (*MacDonald and Evans, Ltd. Price 12s. 6d.*)

This is a book which may be profitably read by anyone who uses, or is interested in, book-keeping machines. Punched card equipment is not dealt with as it is here considered to be a specialised form of accounting effected almost entirely by a mechanical process.

Although primarily intended for operators or would-be operators with some book-keeping knowledge, the volume contains many useful recommendations which ought many years ago to have been available in this handy form for the accounting staff—the "Chief" included. It is arranged in 15 lessons, with 47 illustrations. Particular mention must be made of the twelve helpful rules and suggestions for operators (Lesson 15), and of the Appendix, which explains one hundred technical terms—dearly loved by the mechanically-minded, but not usually understood by anyone else.

The author takes us through the mechanisation of cash receipts and payments, purchases and sales, wages, dividends and ledger postings and provides two very useful Lessons on methods of proof. Amongst others, the pages on distribution and analysis methods contain a number of useful ideas involving the use of only the simple list-adding machine (which can hardly claim to be machine accounting). In the chapter on cost accounting the impression is given that in order to be able to use machines for stock records the average price method should be used. This ignores the current discussion on the valuation of stocks and their replacement.

As it is a reviewer's duty to criticise if need be, some remarks must be made on the great detail given in Lessons 2 and 3, which are devoted to keyboard operations on the simple list-adding machine. These Lessons lead one to expect similar comprehensive information about the more complicated contrivances. But no! Subsequent Lessons appear to assume that the would-be operator has had ample tuition in the handling of these machines and can therefore deal with their application to the more common accounting functions.

The author is a staunch advocate for machines and he stresses their advantages over pen and manual methods, but there are occasions when mechanisation is not an unmixed blessing, and the chronicle would have been more complete if some of the less rosy aspects of mechanisation had been mentioned. R. N. B.

SHARE TRANSFER AND REGISTRATION IN COMPANY LAW AND PRACTICE. By A. K. Martin, F.C.I.S. (*Stevens & Sons, Ltd. Price £1 net.*)

This is an excellent practical work. It should be of great value to those working in company registration offices and, especially, to students preparing for the examinations of the Chartered Institute of Secretaries who do not have good practical experience.

The forms given are on the whole well-devised, and can be followed with whatever modifications are desired. The form on page 122 (Reverse of Share Certificate) is one that would give minimum information, necessitating a certification book. Most registrars today prefer to have further columns on the back of a certificate, giving details of the certifications and balance holding (if any).

Many companies today are satisfied with a letter of indemnity for a lost share certificate, signed jointly by the shareholder and a bank. This gives the company protection against loss but a statutory declaration is surely preferable. Experience has shown that when he is told he has to sign a statutory declaration a shareholder realises that the loss of a certificate is a serious thing. It is frequently found that a certificate believed to be lost is found after a further diligent search. A statutory declaration, including a clause stating that the shares have not been sold, pledged, or in any other way disposed of or dealt with, is a deterrent.

On page 18 reference is made to the certifying of further balances of shares remaining on an original balance certificate. The paragraph says that if a balance still remains the original ticket is amended and reissued. But it is better practice to issue a new balance ticket. Such balance tickets may be re-presented several times and if they are reissued, which is not to be recommended, they should certainly be initialled and the counterfoil amended accordingly. T. P. R.

A COMPREHENSIVE INDEX TO THE INCOME TAX ACT, 1952. By A. C. Monahan, F.C.A. (*The Solicitors' Law Stationery Society, Ltd., London. Price 15s. net.*)

The passing of the Income Tax Act, 1952, will involve a great deal of cross reference by those who have occasion to refer to the Act. This *Index* is therefore very welcome. Under each heading it gives not only the page but the Section. It runs to 126 pages and is followed by comparative tables showing what Sections of the repealed Acts are reproduced or represented by the 1952 Act, specifying the relevant Section of that Act; the Sections of the 1952 Act which reproduce the various Sections of the Income Tax Acts which have been consolidated into the 1952 Act, and so on. H. A. R. J. W.

STATISTICS AND THEIR APPLICATION TO COMMERCE (Boddington). Revised and rewritten tenth edition by A. R. Ilersic, B.COM. (*H.F.L. (Publishers), Ltd., London. Price 25s. net.*)

In his preface to this rewritten edition, the author states that it is designed primarily for students working for professional examinations—though he hopes that the business man will find it useful—and that he has therefore devoted more space to explanation than might normally be called for. This is a good fault—if fault it be—in an elementary work. It is one which will particularly assist students without personal supervision by a tutor.

The author is to be congratulated for emphasising principles rather than symbols; for showing the reader "why," rather than giving him "magic formulæ." In this he will have the full support of those who regard the study of statistics as applied common sense rather than as an esoteric mathematical exercise. Those with limited mathematics need have no fear of getting out of their depth.

Throughout, the book has a refreshingly realistic approach, especially in its illustrative tables. The chapters dealing with surveys, index numbers, statistical sources and quality control will provide information

of value to many who are not students. It is good to find the sources of the more important statistics explained, rather than merely listed.

A few minor criticisms may be mentioned without at all detracting from the reviewer's strong recommendation of this book. The importance of the choice of scales in graphical work might have been brought out more forcibly, and other types of graphs—strata, silhouette, maximum and minimum (" high-low ")—might have been noted. A summary of the advantages and disadvantages of the various types of averages does not much assist the beginner. Some examples illustrating, in specific cases, which type would best be used and why, would enhance the usefulness of the chapter on averages. The chapter on statistics in business is a good introduction to this field, but the important sector of statistics relating to the human element —" personnel statistics "—is cursorily considered.

To the student the price of the book may appear high but it will prove a sound investment.

R. R.

KEY TO INCOME TAX AND SUR-TAX, 1952-53. (*Taxation Publishing Co., Ltd., London. Price 7s. 6d. net.*)

This annual publication, Budget edition, contains the provisions of the Budget and the Income Tax Act, 1952, in very succinct form. The automatic thumb-index permits rapid reference. References are made to Acts and Cases, with practical examples. All allowances and reliefs are included, with a full schedule of wear and tear rates.

A useful handbook as an *aide-mémoire* to the Acts in practice.

H. A. R. J. W.

" CURRENT LAW " INCOME TAX ACTS SERVICE. (*Sweet & Maxwell Ltd., London. Price £3 10s. net, plus annual subscription £1 10s. net.*)

This service aims at providing prompt details of all changes in income tax law. The first issue (in loose-leaf) is a verbatim reprint of the Income Tax Act, 1952, with detailed notes on each Section, showing its source, citing cases required for its interpretation, and giving cross-references to other provisions and to Konstam's *Law of Income Tax*. Differences between practice and the strict provisions are indicated, with, where necessary, an explanation of the purpose of the provisions.

Saved provisions of the Acts, Regulations, Double Taxation Orders and other relevant data are reproduced. Reference is simple; the index runs to 50 pages of double column entries.

It is the aim to give:

Budget Resolutions within three days.
Finance Bill within a week.
Finance Act within a fortnight.
All new Regulations, Orders, etc.
All new cases digested and keyed to the text.
Yearly replacement sheets to bring annotations up to date.

This promises to be a real aid to busy accountants; it has started admirably.

H. A. R. J. W.

THE ACCOUNTANCY OF CHANGING PRICE LEVELS. (*Main volume, price 15s. net; abridged version, price 2s. 6d. net. Both volumes published by The Institute of Cost and Works Accountants, London, and distributed by Gee and Co. (Publishers), Ltd., London.*)

The Institute of Cost and Works Accountants is to be congratulated on having made available these reports of the Research and Technical Committee, which it states are not an official expression of the views of its Council. The reports amount to a wholehearted acceptance of the thesis that in conditions of changing prices, accounting in real terms, past money values being corrected to allow of the price changes, is a necessary adjunct to accounting in the conventional manner.

It is doubtful whether the Institute's claim, that the larger volume—of which the smaller is an abridged version for the busy executive—can be regarded as a text-book on the subject, is acceptable. The idea of accounting for fixed assets and stock in terms of replacement costs (" last " or " present " values) has not yet fully established itself in the profession. The Institute goes far beyond this idea in entering for every figure in the final accounts another, to which it is equivalent at the values of the basic year, and a third, the current value. Until there has been a more general movement away from conventional accounting, even if it does not go so far as the Institute's radical departure, a work such as it has now produced is not a text-book but a cross between a closely reasoned sermon, directed evangelically to the unconverted, and an exercise in untried techniques. Even those who are sympathetic to the " new accounting " will hardly have expected that they would be asked to apply to every item in the balance sheet and the profit and loss account a correction by an index number peculiar to that item, so as to give the basic equivalent, and then to enter also the current value, so that there are three columns in the place of one.

Nor is it clear that the application of separate index numbers to individual items, to give basic equivalents, has any real meaning: this seems to involve the fiction that the *individual* base prices—in distinction to a general price level—have some present significance, which they have not.

The first part of the larger work is a detailed listing of data for the " background " of the main subject and might perhaps have been shortened. Is it really necessary in a work of this kind to set out, without analysis, the qualities and functions of money; to list, again without analysis, all the effects of changing price levels; and, in so doing, to produce, in effect, a small dictionary of finance and commerce? The discussion becomes absorbing when the central problems, rather than introductory detail, are grappled with. Thus, the chapter on the effect of traditional accounting upon the maintenance of real capital is very good reading. The examination in the next chapter, by reference to certain alternative principles of accounting, of whether changes in the established technique are necessary, is well done. In this chapter, for example, the principle that:

> provision for the excess cost of replacement of assets should be made by an appropriation of profits from the sale of goods or the provision of services

is contrasted with the alternative that:

> provision for replacement of assets and materials should be made by a charge included in the costs of the sale of goods or the provision of services.

The pros and cons of the two principles are then set out. Similarly with other salient principles—although it is unfortunately not made entirely clear that contrasts are here being struck between the principles. This chapter is a most useful guide to present controversies, so objectively drawn up that the reader is enabled to decide with a minimum of effort at which point he would go as far as the Institute and at which he would hold back. The next chapter then gives the far-reaching recommendations of the committee. The following chapters set out to apply these recommendations to specimen accounting entries and final documents.

Clearly, much hard work and thinking —and a good deal of pioneering courage— have gone into these publications. Any work which sets out to push far beyond the present confines of the subject of which it treats must inevitably attract criticism on the details of its presentation, its methods and its conclusions. Yet what is really important is not those detail, but the broad effect that is made upon the development of the subject. Certainly, *The Accountancy of Changing Price Levels* is " required reading " for every accountant who is concerned with the way accounting will move in the next few years.

L. T. L.

Legal Notes

Company Law—Company Struck off Register—Effect of Restoration

By Section 353 (1)-(5) of the Companies Act, 1948, a company which has not been dissolved may, in certain circumstances, be struck off the register and by Section 353 (6), which substantially reproduces a provision of earlier Acts:

> If a company or any member or creditor thereof feels aggrieved by the company having been struck off the register, the Court on an application made within twenty years . . . may . . . order the name of the company to be restored to the register and . . . the company shall be deemed to have continued in existence as if its name had not been struck off; and the court may by the order give such directions and make such provisions as seem just for placing the company and all other persons in the same position as nearly as may be as if the name of the company had not been struck off.

In **Tyman's, Limited *v.* Craven** (1952, 1 A.E.R. 613), a company was struck off the register in November 1950 and restored to it on October 15, 1951, the Court in ordering the restoration giving no special directions. Meanwhile on July 23, 1951, an application had been made on behalf of the company for the grant of a new lease under the Leasehold Property (Temporary Provisions) Act, 1951, the last possible day for the making of the application being July 24, 1951. The landlord disputed the company's right to a new lease and when the proceedings came on for hearing on October 31, 1951, he took the point that the application was bad as the company was not in existence at the relevant time.

The Court of Appeal held by a majority that the effect of the restoration of the company to the register was retroactive and the application was valid. As was pointed out by Jenkins, L.J., in a forceful dissenting judgment, this decision may have very strange consequences: a company might not be restored to the register for twenty years after it had been struck off, and during that period what test could be applied to determine whether or not persons purporting to act on behalf of the company had hypothetical authority to do so?

It should be noted that the provisions of Section 353 (6) are different from those of Section 352 (1), which apply when a company has been dissolved. The Court may within two years of the dissolution make an order, upon such terms as it thinks fit, declaring the dissolution to have been void and thereupon such proceedings may be taken as might have been taken if the company had not been dissolved. It will be seen that the retroactive effect of this provision is very limited.

Contract and Tort—Rate of Exchange

In ACCOUNTANCY for April 1951 (page 149), we noted the case of *Cummings* v. *London Bullion Co., Ltd.* (1951, W.N. 102). Under a contract for sale or return, a brooch was returned to the sellers, who were bound under the terms of the contract to repay in dollars. Between the return of the brooch and the obtaining of Treasury permission by the sellers to repay in dollars, the pound was devalued. The question arose whether repayment had to be made at the old or at the new rate of exchange.

Slade, J., held that the old rate of exchange applied, but his decision has now been reversed by the Court of Appeal in **Cummings *v.* London Bullion Co., Ltd.** (1952, 1 A.E.R. 383) on the ground that there was an implied condition in the contract that repayment was only to be made when Treasury permission was given and consequently the new rate of exchange applied.

Contract and Tort—Deceit

A claim for deceit will lie if the defendant has made a false statement, knowing it to be false or recklessly not caring whether it be true or false, with the intention that the plaintiff should act upon it and with the result that he does so act and suffers harm in consequence. In accordance with the ordinary rules of law a principal will, of course, be liable for the deceit of his agent, but there has long been a dispute whether a principal is liable if his agent makes a false statement which the agent believes to be true and the principal (*a*) knows the facts which make the statement untrue but (*b*) does not know that the statement is to be or has been made.

This dispute has now been settled by the Court of Appeal in **Armstrong *v.* Strain** (1952, 1 A.E.R., 139). In this case X, acting as S's estate agent, made statements about the value of a bungalow. Owing to the defective condition of the bungalow these statements were false but they were believed by X to be true. S knew of the defects but he did not authorise X to make the statements, nor had he deliberately kept him in ignorance with the dishonest intention of deceiving a prospective purchaser, nor did he know that the statements were being made. The Court held that purchasers who bought the bungalow on the faith of the false statement had no claim in deceit against either the principal or the agent.

The Court realised that this decision might cause some difficulty when claims are made against a company which can only speak and act through its agents or officers, but if an officer makes a false statement when many other officers know the true facts, the evidence may well establish that the statement was made so recklessly as to amount to fraud in the officer.

Contract and Tort—Need to Specify Nature of Service in Memorandum of Contract

In **Pocock *v.* A.D.A.C., Ltd.** (1952, 1 A.E.R. 294), P. was employed by a company under a contract which was to last for a period of more than one year and which was therefore unenforceable unless it was evidenced by a memorandum in writing. The only memorandum was a minute in the company's books which read: "It was resolved that P. be appointed as a consultant to the company at a salary of £150 per annum for the period to October 31, 1944, or until her death, whichever is the earlier."

Lord Goddard, C.J., with some reluctance held that he was bound by *James* v. *Thomas* and *Kent & Co., Ltd.* (1950, 2 A.E.R. 1102), which decided that a minute recording the appointment of a person as a director was too vague to amount to a sufficient memorandum, unless it gave some indication of the general nature of the duties he had to perform and his position in the company's service. The words "as a consultant" were even vaguer and therefore the contract was unenforceable.

Executorship Law and Trusts—Right of Court to Control Administration — Apportionment of Proceeds of Sale of Trees between Capital and Income

The determination of the Courts to retain their rights of controlling the administration of estates was shown in **Re Wynn's Will Trusts** (1952, 1 A.E.R. 341). The testator in his will authorised his trustee to determine whether any moneys should be considered as capital or income and to determine all questions and matters of doubt arising in the execution of the trusts of the will and he further declared that "every

such determination whether made upon a question actually raised or only implied in the acts or proceedings of my trustee shall be conclusive and binding upon all persons interested under my will." For several years trees were felled on the estate and the trustee treated the proceeds as capital; he applied to the Court for a decision whether he had acted rightly in so doing.

The persons interested in the capital of the estate contended that on the wording of the will all the beneficiaries were bound by the previous decision of the trustee to treat all the proceeds as capital. Those interested in the income contended that they were not bound because the clause in the will was invalid. Danckwerts, J., agreed that the clause was invalid. It was repugnant to the benefits conferred by the will and it was contrary to public policy as an attempt to oust the jurisdiction of the Court. Consequently the beneficiaries were not bound by the previous decision of the trustee and he must reconsider that decision in the light of the principles of law applicable.

These principles were summarised as follows:

(*a*) trees which have been planted for amenity —the proceeds of sale are capital.

(*b*) timber which is ripe and fit for cutting —three-quarters of the proceeds are capital and one-quarter goes to income.

(*c*) other trees, not being ornamental trees or timber, which are cut when fit for cutting —the proceeds should go to income.

(*d*) those trees which are cut prematurely or windfalls—the proceeds should be allocated between capital and income so as to preserve the rights of the parties in the same manner as they would have existed if there had been no premature sale.

Executorship Law and Trusts—Settlements, Capital or Income?

Few transactions can have provided so much material for litigation as the sale of its road transport interests by Thomas Tilling, Ltd., to the British Transport Commission. It will be remembered that in *Re Sechiari* (1950, 1 A.E.R. 417) it was laid down that the capital bonus paid as a result of the sale must be treated as income in the hands of trustees, and that *Re Maclaren's Settlement Trusts* (1951, 2 A.E.R. 414) and *Re Kleinwort's Settlement Trusts* (1951, 2 A.E.R. 328) decided that there was no equitable jurisdiction to apportion the bonus between capital and income unless there had been a breach of trust. In the latest case of **Re Rudd's Will Trusts** (1952, 1 A.E.R. 254) those beneficially interested in the capital alleged that there had been a breach of trust in the following circumstances.

R. gave his residuary estate to trustees on trust for sale and conversion with power to postpone and he directed that the proceeds of sale should be invested in authorised securities. At R.'s death his investments included some Thomas Tilling stock. The trustees retained this stock and in due course received notice of the proposed capital bonus. Thinking that this bonus would be treated in law as capital in their hands they did not consider the question whether they ought to sell the stock *cum div.* and in due course they received the capital bonus.

Upjohn, J., held that there had been no breach of trust. The trustees were not entitled to treat the Thomas Tilling stock as a permanent, authorised investment, but that did not mean that they ought necessarily to have taken the opportunity of realising the stock in order to make a large profit for capital at the expense of income, as they must always act impartially between the two. There was no obligation upon the trustees to sell the whole or any part of the stock cum dividend.

His lordship was not, of course, concerned with the question whether the trustees would have done wrong if they had sold the stock *cum div.*, but it is submitted that this too would not necessarily have been wrong: in matters of this kind trustees must be allowed a good deal of discretion.

Executorship Law and Trusts—Forms of Will

In **re Stevens deceased** (1952, 1 A.E.R. 674), a testator had made and duly executed a will on a printed form, and the relevant portions of it ran thus: " I appoint —— of —— and —— of —— to be executors of this my will. I give devise and bequeath unto my brother P., also sister J., also sister E." It will be seen that the property to be given was left unspecified and the question arose what property, if any, was left to each beneficiary.

Wynn-Parry, J., referred to the " golden rule " enunciated in *re Harrison* (1885, 30 Ch.D. 390):

> When a testator has executed a will in solemn form you must assume that he did not intend to make it a solemn farce—that he did not intend to die intestate when he has gone through the form of making a will. You ought, if possible, to read the will so as to lead to a testacy, not an intestacy.

Applying this rule, his lordship said that the testator intended to deal with the whole of his property, and as one of the beneficiaries had predeceased him, the two survivors would take the whole of the net estate in equal shares.

Insolvency—Remaining out of England with Intent to Defeat or Delay Creditors

A debtor, an American citizen, carried on business in England for some years prior to November 1950, when he left to return to America. Shortly after he left a bank obtained judgment against him in two actions. After some correspondence between solicitors for the bank and for the debtor a bankruptcy petition was presented alleging that, with intent to defeat or delay his creditors, the debtor had departed out of England and being out of England with a like intent remained out of England.

In **re a Debtor** (1951, 1 A.E.R. 519) the Court of Appeal held that the petition was invalid. The onus was on the petitioning creditor to prove the intent to defeat or delay creditors, and this meant that the Court had to be satisfied that in all the circumstances of the case the presence of the intent was so much the most probable explanation of the debtor's conduct as to make it in effect the only probable one. Here the debtor was an American citizen with relations and friends in America and it was a reasonable supposition that the debtor genuinely believed that by going to America and staying there he would be in a better position to raise funds to pay his creditors; indeed he had managed already to pay large sums to other creditors. The bank had not therefore discharged the onus of proving the necessary intent.

Miscellaneous—Architect's Fees not Included in Amount Authorised by Building Licence

In **Young *v.* Buckles** (1952, 1 A.E.R. 354), the Court of Appeal refused to accept the view that fees payable to architects or other professional persons in connection with building operations are included in, and cannot be paid so as to create an excess over, the sum for which the Ministry of Works may grant a licence. The argument turned on the effect of the language of Defence Regulation 56A:

> In computing . . . the cost of an operation or of any work, regard shall be had to the value of any goods or services used for the purposes thereof, notwithstanding that the provision thereof did not involve the expenditure of money solely or primarily for the purpose of that particular operation or work.

The Court pointed out that if an architect's fees had to be counted in the licensed amount, so also, for example, would the fees of a lawyer who was asked to advise whether the proposed building would infringe a right of way (or, it might be added, the fees of an accountant who advised on the cost of the proposed building from an income tax angle).

Mr. J. R. W. Alexander, President of the Chartered Institute of Secretaries, has become President of the Institute of Arbitrators, in succession to Colonel F. N. Falkner.

THE SOCIETY OF

Incorporated Accountants

Accounting in Inflation

We reproduce part of an address given by Sir Harold Howitt, G.B.E., D.S.O., M.C., F.C.A., Past-President of the Institute of Chartered Accountants in England and Wales, at a luncheon meeting of the Incorporated Accountants' London and District Society held on April 1. Mr. J. A. Jackson, F.C.A., F.S.A.A., the Chairman of the District Society, presided. On page 156 of this issue we comment upon Sir Harold's remarks.

SIR HAROLD SAID HE WOULD ASSUME THAT they were all familiar with the issues involved in the problem of accounting in inflationary conditions and that it was common ground that neither the accountancy profession nor industry was of one mind on the subject. It was probably true to say that those differences of opinion existed not only between members of the accountancy bodies, but even among partners of the same firm—this certainly was so in his firm.

In these circumstances it was very difficult for the Council of any accountancy body to speak with one voice as purporting to represent the views of its members—indeed, this was probably impossible, and all it could hope to do was to put forward the best advice it could give and advice which it believed to represent the majority view. The normal way to test that majority view was to seek the advice of regional committees.

It would ill become him as a guest at a luncheon, where presumably there was not time for much heckling, to get too controversial. He might, however, perhaps be permitted to mention that the Council of the Institute tackled the problem as long ago as early 1948. The results of their deliberations were published in January 1949 in their Recommendation XII—a document much abused in some quarters and misunderstood in others.. They were, he thought, first in the field and at a time long before the present controversy had become so hot. It was known to some of those present that the Institute was reviewing that recommendation in the light of present circumstances but they would not expect him, nor indeed was he able, to forecast what would result.

He might, however, be allowed to say that it was remarkable how in nearly all essentials the careful and detailed report of the U.S.A. Study Group which recently issued its findings came to the same conclusions as those expressed in Recommendation XII. The American recommendation was that the historic cost basis for annual accounts should, for the present, be retained; that supplementary information, also reported upon by the auditor, should where possible be given as to the effect on these accounts of changes in the value of money; and that intensive study of the whole matter should continue.

The report of the Study Group indicated the difference of opinion existing also in the United States, and was accompanied by a considerable volume of dissenting observations on particular points.

Sir Harold presumed it would be accepted that the present demand that annual accounts should be stated in a form to reflect the fall in the value of the monetary unit had arisen primarily from two sources —taxation and wage rates. It might, then, be well to say a word on these two issues:

TAXATION

It was helpful that the controversy he was discussing had come acutely to a head at a time when they were all busy submitting evidence to the Royal Commission. It gave an opportunity to emphasise the crushing burden of taxation, especially with the added influence of inflation, and that retained profits were insufficient for development, or in some cases even for existence. They must, however, be careful not to drift into the position that good accounting was that which the tax authorities accepted. The reverse should be maintained as the rule, namely that the tax authorities were prepared to adopt accounts prepared on accepted accounting principles. They must not get the cart before the horse.

It would be a tragedy if stable accountancy were to be sacrificed because it was made the scape-goat for the real offender, the high rates of taxation; nor was there the slightest guarantee that even if accounts were prepared on the basis now being advocated, the desired end would be achieved, for a simple answer might be to put the tax rates still higher to bridge the gap.

Further, it was unthinkable that depreciation of fixed assets at replacement cost levels would be allowed for taxation unless complicated machinery were introduced to ensure that the asset was, in fact, replaced before the owner by sale, liquidation or otherwise, got away with what would, in effect, be an untaxed benefit. If industry alone were to be insulated from the effects of inflation there would be sound arguments for the legislature to introduce some form of capital gains tax, and the concession would then have been bought very dearly.

WAGE RATES

Undoubtedly the present high rate of published profits was an upsetting influence in wage disputes. But would the position be bettered if those profits were reduced to cater for the change in the value of money? At present the accounts could at least be presented as being prepared on an understood accounting basis and argument could be adduced as to the amount by which the recorded profit should be adjusted to allow for replacement commitments. If they were prepared in the first instance on the replacement basis, their whole structure would be suspect. It would be difficult to resist the argument that all members of the community were to be asked to suffer from rising prices except the equity owner, and indeed that in so far as he escaped, others were to bear his burden as well as their own. Would it be an effective answer to say that at all costs industry must be maintained?

So far he had stated only some of the broad issues to be considered before reaching a decision as to whether anything should be done. He would now say a few words as to the alternatives which were available.

The Institute's Council, in its various Recommendations, had suggested that depreciation should continue to be calculated on historic cost; that any excess thought by the board of directors, as a matter of prudence, to be desirable to be set aside to finance replacements at enhanced costs should be separately charged to revenue, and if charged before the profit for the year was struck, that profit should be appropriately described; that the excess in question should be carried to a capital reserve account; that the alternative of a renewals basis was available; that generally speaking fixed assets should not be written up on the balance sheet; and that stocks should be valued on any basis accepted as good accountancy practice for the trade in question, provided the basis was made clear and was consistently maintained. So far as stocks were concerned it was stated in Recommendation X that LIFO and the base stock methods were not much used in this country.

Now whatever might be said about these recommendations they were at any rate

clear. They were broadly in line with the American proposals to which he had referred, though they had not, as the Americans had, gone so far as to suggest the compilation of a supplementary set of accounts dealing with changes in value of the monetary unit and reported upon by the auditor.

He wished he could say that those who were not satisfied with such proposals were, as a body, equally clear as to what they wanted. Their proposals in regard to rising prices varied within the following limits:

(*a*) Some would deal with depreciation of fixed assets only and not with stock-in-trade—others would deal with both.

(*b*) Some would advocate writing up fixed assets on the balance sheet to a replacement cost basis—others would not.

(*c*) Some would arrive at the depreciation charge according to current replacement costs and some on the basis of indices of inflation (or other element of increase in cost) since the asset was bought. There were differing views as to how, if at all, the slack from previous years should be picked up and as to how one dealt with the fact that assets were seldom replaced in their old form.

(*d*) Some would value stock on base stock and some on LIFO or index principles—and some maintained that these two were essentially the same. If any item of stock was bought, say, for £10 in January and sold for £15 in December, when it could be replaced at £14, some would maintain the profit was only £1, though opinions differed as to what should happen to the other £4, including as it did not only factors of inflation but factors concerning efficiency of production and even of good or bad buying. If the £4 was taken to stock reserve the net stock valuation would soon become a red ink figure, and yet if this was not done (i.e. if LIFO principles were used merely as a method of valuing the stock-in-trade and not as a means of relating each sale to its replacement cost), the basic argument for LIFO had been discarded.

(*e*) Some would apply these principles to the annual audited accounts, and some would use them only for supplementary statements.

This was a vast subject and perhaps not appropriate to an after-luncheon talk, but Sir Harold felt it was topical enough to justify a few remarks, not, he hoped, too provocative.

He had not attempted to deal with profits for prospectus purposes, though obviously the question of rising prices was of vital importance in that connection. He wondered how far subscriptions would be forthcoming on the basis of a prospectus which made it clear that dividends would not be paid unless the physical capacity of the business had been fully maintained. Further, he wondered what would be the rights of shareholders, and particularly Preference shareholders—who might have subscribed to an issue on the basis of profits stated on orthodox principles—if that basis were altered as suggested?

He was not for a moment suggesting that the problem did not require further thought, or that the historical cost method had not serious limitations. He was not expressing a view as to what was likely to be the future trend of the value of the £ sterling, though he thought that was a material matter. Something would obviously have to be done if our currency went the same way as certain European currencies had done, and even short of that there was a point beyond which replacement costs could not in any event be met out of revenue, whatever they did with their accounts. In the meanwhile, it was alarming to think of the differing profit or loss results which would be shown if advocates of rising price accounting were turned loose on the books of any given business before they had cleared their minds much more as to what exactly they wanted and how they would get there. It would be disastrous to scrap historical cost accounting, interpreted as the Institute had recommended, without first finding a better basis. It was easy to advocate a change and it might be popular to do so, but it was much more difficult to define it.

THE SOCIAL IMPORTANCE OF ACCOUNTANCY AND AUDITING

THE ANNUAL DINNER OF THE INCORPORATED Accountants' South Wales and Monmouthshire District Society was held at Cardiff on March 21, under the chairmanship of its President, Mr. W. J. Fooks, F.S.A.A. Mr. and Mrs. Fooks, with Mr. C. P. Barrowcliff, F.S.A.A., the President of the Society of Incorporated Accountants, and Mrs. Barrowcliff, received some 240 members and guests.

The guests included the Lord Mayor of Cardiff (Alderman Robert Bevan, J.P.) and the Lady Mayoress; the Mayor of Merthyr (Alderman C. W. Bridges) and the Mayoress; the Deputy Mayor of Newport (Councillor Percy Jones) and the Deputy Mayoress; Mr. I. J. Pitman, M.P., Mr. George Thomas, M.P., and

Sir Frederick J. Alban, C.B.E., F.S.A.A. (Past President, Society of Incorporated Accountants), and Lady Alban; Messrs. R. Wilson Bartlett, D.L., J.P., F.S.A.A. (Past President, Society of Incorporated Accountants and Auditors); C. E. Black, F.A.C.C.A. (President, Association of Certified and Corporate Accountants, South Wales and Monmouthshire Branch); Mr. I. A. F. Craig, O.B.E. (Secretary, Society of Incorporated Accountants and Auditors), and Mrs. Craig; Mr. G. C. Diamond (Headmaster of Cardiff High School for Boys); Major Douglas A. Duncan, T.D. (President, Cardiff Chamber of Trade); Messrs. R. F. Emmerson, F.S.A.A. (President, West of England District Society of Incorporated Accountants); E. Gavine (District Inspector of Taxes, Cardiff).

Sir James German, K.B.E., J.P. (President, Cardiff Chamber of Commerce); Messrs. F. W. R. Harrison, J.P., B.SC. (Principal, Newport Technical College); F. Norman Harry (Chairman, Cardiff Stock Exchange); Dr. A. Harvey, PH.D., B.SC. (Principal, Cardiff College of Technology and Commerce); Mr. L. Howles (Chairman, South Wales Electricity Board); Messrs. E. S. Porter, F.S.A.A. (President, Swansea and South-West Wales District Society of Incorporated Accountants); F. D. Newsum, F.C.I.I. (President, Insurance Institute of Cardiff).

Messrs. D. M. Rees (Chairman, National Coal Board, South-Western Division); J. C. C. Rees, F.C.I.S. (President, Chartered Institute of Secretaries, South Wales and Monmouthshire Branch); Gilbert D. Shepherd, M.B.E., J.P., F.C.A. (Past President, Institute of Chartered Accountants in England and Wales); R. S. Snelling, J.P. (Deputy Chairman, Wales Gas Board); Alderman the Rev. Degwel Thomas, J.P. (Chairman, Glamorgan County Council); Messrs. Robert M. Wignall (President, Institute of Bankers, Cardiff and District Centre); David Young, F.C.W.A. (President, Institute of Cost and Works Accountants, South Wales and Monmouthshire Branch).

Accounting Nomenclatures and Conventions

Proposing the toast of the Society of Incorporated Accountants, Mr. I. J. Pitman, M.P., said that the Society had a real duty to get the public thinking on the right financial lines. Accountancy was a most difficult and involved subject for the man in the street, and the various terms of accountancy had been given labels which had been used to exaggerate class divisions. One of the most interesting developments of the last six months or so had been a tentative attempt to remedy this state of things. He believed the accountancy profession had a very important part to play in the return to good Government, by developing a fresh set of nomenclatures which would explain accountancy to people in a way which would not arouse ignorant class prejudice. People did not realise the extent to which their Society had been the guardian of the industry and commerce of the country.

Responding to the toast, Mr. C. Percy Barrowcliff, President of the Society, said that the Council of the Society had been much concerned about the accounting implications of the changing price level. It had initiated an enquiry into the whole matter and he hoped an announcement would be made shortly. He reaffirmed his personal view that a modification of existing accountancy practice was urgently required to provide for replacement of real assets at current replacement costs.

In various places all over the world members of the Society were carrying out invaluable work to raise the standards as well as to improve the techniques of the profession, to meet the ever-increasing demands made upon it. Demands which, starting with the somewhat elementary account-keeping services, extended now to a very wide range of highly technical services—all of which had an important influence on and a vital place in the economy of the country.

The Value of Auditing

Continuing, Mr. Barrowcliff said:

I would place first in importance of these services, the audit of accounts with the complete independence and integrity we bring to bear upon them.

Since business capital is now mainly provided by people not directly engaged in a particular business, they require someone qualified for the work to examine and report on the accounts of the undertaking—someone who is independent of the management and whose integrity is unchallenged.

This function is being performed by the members of the accountancy profession who have, by their standards, increased public confidence in commercial accounts. The huge industrial machine as we know it today owes a great deal to the public confidence which we, as a profession, have helped to build up through the faith they have in the accounts bearing our audit certificate.

It is a matter of public concern to consider carefully the position of nationalised industries in relation to the audit of their accounts. Are these to be the subject of an independent audit, as would apply to a commercial undertaking, or are these bodies to be free of this vitally important independent scrutiny? I would suggest that it is very necessary for the ordinary citizen to insist on having a properly conducted independent audit and I would go further and say that it is in the Government's own interest to see that this independent audit is adopted. In this way, the confidence of the public will be maintained and increased as it is in the case of private commercial accounts.

One final word on taxation. This is much too heavy and is doing serious harm to trade and commerce. It is on our initiative, our enterprise, our work and our productivity in business that our prosperity depends. Then why curb, curtail and strangle the very thing upon which the country depends by excessive and undue taxation demands? I submit that taxation should and must be reduced at the earliest possible moment.

One way, I suggest, in which we could expect some little relief from the heavy burden of taxation would be a reduction in the colossal Government expenditure. It is hardly conceivable that people will say that there is little or no room for some economy in an expenditure of over £4,000 million. There must be many avenues in the administration where considerable economies could be effected if *some independent authority* existed to check up on these different avenues of spending. This would have nothing to do with the policies of the Government but only with efficient and economical administration of those policies. Extravagance in administration is not another word for efficiency—probably very much the reverse.

The Economics of South Wales

Proposing a toast to the prosperity of South Wales and Monmouthshire, Mr. A. Salter, the Vice-President of the South Wales District Society, said many encouraging factors qualified South Wales for a considerable share in the country's future prosperity. The industrial capacity of the area, shown by a phenomenal increase in demands for electricity and gas, encouraged reasonable optimism for its future economic progress.

The Lord Mayor of Cardiff, Alderman Robert Bevan, acknowledging the toast, spoke of the complete change in South Wales industry in the last quarter-century. Formerly entirely dependent on exports of coal, lighter industries had now been introduced. But once again they needed more heavy industries.

Mr. George Thomas, M.P., who also replied, expressed the hope that the authorities would remember the prior claims of the development areas to supplies of industrial raw materials. He urged a fairer share of shipping freights for the under-used South Wales ports.

A toast to the guests was proposed by Mr. W. J. Fooks, President of the District Society, and Mr. G. C. Diamond, Headmaster of Cardiff High School for Boys, replied.

EVENTS OF THE MONTH

May 3.—*Belfast:* "Accounts of Holding Companies," by Mr. L. F. Garland, A.S.A.A. Students' pre-examination class.

May 3-4.—*Belfast:* Golf outing in conjunction with members from Dublin.

May 6.—*Belfast:* Luncheon at 1 p.m., followed by annual general meeting.

May 9.—*London:* Dinner-dance. Hyde Park Hotel, at 7 for 7.30 p.m.

Waterford: Students' annual general meeting.

May 10.—*Belfast:* "Taxation," by Mr. J. B. Alexander, A.S.A.A. Students' pre-examination class.

May 13-16.—*Society of Incorporated Accountants:* Examinations.

May 21.—*London:* Society of Incorporated Accountants annual general meeting, followed by Incorporated Accountants' Benevolent Fund annual meeting. Incorporated Accountants' Hall, W.C.2, at 2.30 p.m.

RESULTS OF EXAMINATION IN SOUTH AFRICA

FINAL EXAMINATION

NOVEMBER 1951

Candidates Passed (9)

BARNACLE, Philip James (with Deloitte, Plender, Griffiths, Annan & Co., Salisbury, S.R.); GORDON, Rael (with Walter Goldberg & Co., Cape Town); GRANT, David Gordon (with Douglas, Low & Co., Johannesburg); HIND, David Arthur Montague (with Clothier, Frost & Brown, Durban); JOHNSTONE, Alan (with Deloitte, Plender, Griffiths, Annan & Co., Johannesburg); LONGMORE, Michael John (with Douglas, MacKelvie, Galbraith & Co., Cape Town); PEARSE, Robert Scholtz (with Pearse & Ryan, Johannesburg); RYDON, Michael Philip (with Deloitte, Plender, Griffiths, Annan & Co., Cape Town); WILSON, Ian Cameron (with Saml. Thomson & Young, Johannesburg).

(*Eight candidates failed to satisfy the examiners.*)

COUNCIL MEETING

MARCH 20, 1952

Present: MR. C. PERCY BARROWCLIFF (President), Mr. Bertram Nelson (Vice-President), Mr. John Ainsworth, Sir Frederick Alban, Mr. A. Stuart Allen, Mr. F. V. Arnold, Mr. Edward Baldry, Mr. R. Wilson Bartlett, Mr. R. Bell, Mr. C. V. Best, Mr. H. J. Bicker, Mr. F. Sewell Bray, Mr. A. Brodie, Mr. Henry Brown, Mr. M. J. Faulks, Mr. W. H. Fox, Mr. A. Hannah, Mr. C. A. G. Hewson, Mr. Hugh O. Johnson, Sir Thomas Keens, Mr. W. H. Marsden, Mr. A. E. Middleton, Mr. F. A. Prior, Miss P. E. M. Ridgway, Mr. P. G. S. Ritchie, Mr. Henry Smith, Mr. R. E. Starkie, Mr. Joseph Stephenson, Mr. Percy Toothill, Mr. Richard A. Witty, with the Secretary and the Deputy and Assistant Secretaries.

DEATH OF THE PRESIDENT OF THE IRISH BRANCH

The President reported that he had learned with profound regret of the sudden death on March 10 of Mr. W. L. White, President of the Irish Branch. Members of the Council stood in silence in tribute to the memory of Mr. White.

REPORT AND ACCOUNTS

The report of the Council and the accounts of the Society for the year 1951 were approved.

REPORTS OF COMMITTEES

The Council received the minutes of recent meetings of the Finance and General Purposes, Examination and Membership, Development and Applications Committees, of the ACCOUNTANCY Editorial Conference and of the South African Branches.

EXAMINATION PRIZES AND MEDALS

The Council made the following awards:

Gold Medal for 1951: Ernest William Barnes, Bristol.

Silver Medal for 1951: Derek Mather, Liverpool.

Henry Morgan Memorial Prize for 1951: Derek Mather, Liverpool.

Arthur E. Piggott (Manchester) Prize for 1951: James Patrick Seymour Edge-Partington, London.

Sir James Martin Memorial Exhibition for the November, 1951, Intermediate Examination: Michael Henry Wheaton, Port Talbot.

Irish Jubilee Prize for the 1951 Final Examinations: Anthony Michael Breen, Waterford.

Irish Jubilee Prize for the 1951 Intermediate Examinations: Robert George Gentleman, Dublin.

COURSE ON MANAGEMENT ACCOUNTING

Arrangements were approved for the course on Management Accounting to be held at Balliol College, Oxford, in September 1952. Particulars were given in the April issue of ACCOUNTANCY on page 124.

MEMBERSHIP

Applications for admission to membership of the Society, for promotion to Fellowship and for registration as members in retirement were approved, subject to payment of the appropriate fees and subscriptions.

RESIGNATIONS

It was reported that the following members had resigned with effect from January 1, 1952: Chakravarty, Annada Charan (Fellow), Kanpur; Cooper, George Edward (Associate), Benllech Bay; Glover, Patrick William Robertson (Fellow), New York; Nicholas, Egbert Tregarthen (Fellow), Worcester; Patterson, Annie Emmerson (Associate), Manchester; Stott, John Frederick (Fellow), Manchester.

DEATHS

The Council received with regret reports of the deaths of the following members: Abercrombie, Walter Andrews (Fellow), Paisley; Bray, Herbert (Fellow), Leeds; Christopher, James William Robert (Associate), Worcester; Hargreaves, Frederick (Fellow), Timperley; Johnson, Samuel (Fellow), Birmingham; Keeling, William Pascal (Fellow), London; Smart, Robert Stanley (Associate), Coogee, N.S. Wales; Smith, Lionel Gorden (Associate), Johannesburg.

THE SOCIETY'S LIST OF MEMBERS

THE NEXT EDITION OF THE SOCIETY'S *List of Members* is in course of preparation and will be published early in 1953. Members who have not already notified the Society of changes of address or appointment are requested to do so without delay.

DISTRICT SOCIETIES AND BRANCHES

IRISH BRANCH

AT A MEETING OF THE BRANCH COUNCIL ON April 4, Mr. John Stanley Lewis was elected President in succession to the late Mr. W. L. White. Mr. A. H. Walkey was elected Vice-President.

Mr. R. L. Reid was nominated as a representative of the Society on the Company Law Commission.

LONDON STUDENTS' SOCIETY

PRE-EXAMINATION COURSES FOR FINAL AND Intermediate students were held at Ashridge College from April 23 to 29. The programmes were published in our February issue, on page 85. The Intermediate course extended over six days: candidates for Part I of the Final attended lectures on the first three days (Wednesday to Friday), and for Part II on the remaining days (Saturday to Monday).

The courses were attended by a total of 146 students from all parts of the United Kingdom, and all found their sojourn most enjoyable as well as profitable. The afternoons were free till 4.30 p.m., and full advantage was taken of the facilities for outdoor and indoor recreation. A short service was held each morning in the college chapel.

The thanks of the Students' Society and of all who attended are due to the governors of Ashridge and to the lecturers.

CRICKET FIXTURES

Provisional arrangements have been made for four midweek matches. There are a few vacancies in the team and members who wish to play should write to the Secretary of the London Students' Society at Incorporated Accountants' Hall for further details.

HULL

THE INCORPORATED ACCOUNTANTS' HULL and District Society held a very successful Students' Course during the week-end April 4 to 6, 1952. Over 70 students were in residence at Thwaite Hall, Cottingham, by kind permission of the University College of Hull.

Mr. Bertram Nelson, the Vice-President of the Society of Incorporated Accountants, Miss P. E. M. Ridgway, member of the Council, and Mr. Evan-Jones, the Deputy Secretary, attended the course and gave useful information and advice to the students. Other guests were Mr. H. R. Roach (Headmaster of Hymers' College) and Mr. C. Meggitt (Registrar of the University College).

Civic recognition was accorded by the Sheriff of Kingston-upon-Hull, Councillor Lionel Rosen, who also acted as the lawyer member of the Brains Trust, with Professor I. I. Bowen (economist), Mr. C. H. Pollard (City Treasurer), Mr. F. E. Biller (Inspector of Taxes) and Mr. A. H. Pike (banker). Dr. G. G. Thomas was an efficient question master.

Lectures were delivered by Mr. J. Palmer on "Amalgamations and Reconstructions" and on "Taxation"; Mr. G. M. Mowforth on "The Verification of a Balance Sheet"; Dr. C. R. Curtis on "Financial Knowledge and Economics"; Mr. Mervyn Cluff on "Company Law"; Mr. Wynn Gibson on "The Sale of Goods Act"; Mr. H. H. Norcross on "Cost Accounts"; and Dr. G. G. Thomas on "Executorship Accounts."

Mr. Alec Macdonald, President of the District Society, conducted the course and Mr. Henry Scott acted as course secretary.

PERSONAL NOTES

Messrs. Harman & Gowen, of Norwich, East Dereham, Fakenham and Holt, announce that Mr. E. F. G. Turner, A.S.A.A., and Mr. D. H. Barnes, A.C.A., who have been members of their staff for some years, have been admitted as partners. The name of the firm is unchanged.

Messrs. S. B. Billimoria & Co., Bombay, have admitted as partners Mr. M. D. Dubash, A.S.A.A., A.C.A., and Mr. H. B. Dhondy, M.A., A.S.A.A., A.C.A.

Messrs. Hamilton, Pringle, Farrant & Co., Chartered Accountants (South Africa), Johannesburg, have taken into partnership Mr. G. C. Greenwood, M.A., A.C.A., C.A. (S.A.), and Mr. R. S. Adams, A.S.A.A., C.A. (S.A.). The style of the firm remains unchanged.

Messrs. W. G. A. Russell & Co. and Messrs. J. Durie Kerr, Watson & Co., who have hitherto conducted their joint practices at separate offices in Birmingham, announce that they have removed to Lombard House, Great Charles Street, Birmingham, 3, where the practices are conducted under the combined firm name of Russell, Durie Kerr, Watson & Co. They have taken into partnership Mr. N. S. Smart, A.S.A.A., who has been in the employment of Messrs. J. Durie Kerr, Watson & Co. for 26 years, and Mr. R. M. Backhouse, A.C.A., who will be in charge of their London office at 10-12, Copthall Avenue, E.C.2.

Messrs. Edward Thomas Peirson & Sons, Chartered Accountants, Coventry, announce with regret the death of their senior partner, Mr. S. T. Peirson. The practice is being carried on under the same name by the remaining partners.

Messrs. Walton, Watts & Co., Chartered Accountants, Manchester, have admitted to partnership Mr. Cyril Yates, A.C.A., A.S.A.A., who joined the staff in 1934 and served his articles with the firm.

Mr. V. W. Tennant, A.S.A.A., has been appointed Secretary/Accountant to Textile and General Supplies, Ltd., London, W.C.2.

Messrs. Batty & Co., Incorporated Accountants, London, E.C.2, announce that Mr. J. G. Grayson, A.S.A.A., who has been with the firm for some time past, has been admitted as a partner.

Mr. R. R. Elliott, B.COM., F.C.A., has been joined in partnership by Mr. P. J. Mortlock, A.C.A., A.S.A.A. They are practising at Grays, Essex, under the style of Elliott, Mortlock & Co., Chartered Accountants.

Mr. S. R. Bastikar, B.COM., LL.B., Incorporated Accountant, has retired from partnership in Messrs. Dolal, Desai and Kumana, and is now in practice under his own name at Bhagirathi Buildings, No. 3, Tukaram Javji Road, Grant Road, Bombay, 7.

Mr. A. Whitehead, B.COM., A.S.A.A., has been appointed director and secretary of W. Whitehead & Sons, Ltd., Gildersome, near Leeds.

Mr. Norman C. Warner, Incorporated Accountant, has commenced public practice at 3, Georgia Road, Thornton Heath, Surrey.

Messrs. Beatton, Hewson & Co., Incorporated Accountants, London, E.C.2, have admitted to partnership Miss M. Sinclair, A.S.A.A.

Messrs. Harper, Kent & Wheeler, Incorporated Accountants, Bellstone, Shrewsbury, announce that they have taken into partnership Mr. Douglas B. Whittingham, A.S.A.A., who has been a senior member of the staff for a number of years. The firm name remains unchanged.

Mr. C. J. MacKirdy, Incorporated Accountant, has commenced public practice at 194, Broadway, Peterborough.

Mr. Walter Guest, A.S.A.A., has been appointed secretary of John Grundy (Stockport), Ltd.

Messrs. A. L. Palmer, Walker & Co., Johannesburg, have admitted Mr. C. G. Ogilvie, Incorporated Accountant, into partnership.

Mr. John E. Shaw, Incorporated Accountant, Rawtenstall, has amalgamated his practice with that of Mr. Edmund Brown, the sole surviving partner of Messrs. Nathaniel Duxbury, Son & Co., Blackburn. The Rawtenstall practice will be carried on under the name of John E. Shaw & Co. The name of the Blackburn practice will not be changed.

Mr. H. F. Parker, F.A.C.C.A., Cardiff and Cowbridge, has taken into partnership his former senior assistant, Mr. G. L. Chick, A.S.A.A. The practice is being continued under the style of H. F. Parker & Co.

Messrs. Francis & Williams, Incorporated Accountants, and Messrs. H. W. Vaughan and Co., Chartered Accountants, have amalgamated their practices under the style of Francis, Williams & Vaughan, at 12, Christina Street, Swansea.

Mr. R. F. Mead, A.S.A.A., has taken up an appointment as accountant to F. Perkins, Ltd., Peterborough.

Messrs. Hays, Akers & Hays, Chartered Accountants, London, E.C.4, have taken into partnership Mr. E. J. Gamble, A.C.A., A.S.A.A.

REMOVALS

Messrs. Thomas & Co., Incorporated Accountants, announce a change of address to 16, Buckingham Palace Gardens, London, S.W.1.

Messrs. Lewis Tuck & Co., Incorporated Accountants, have removed to Leadenhall House, 101, Leadenhall Street, London, E.C.3.

Messrs. H. S. Jackson & Son, Incorporated Accountants, formerly at Manchester, are now at 36, Egerton Road, Stockport, Cheshire.

Mr. G. Leonard Foulds, Incorporated Accountant, has removed his office to Federation Chambers, Wheeler Gate, Nottingham.

Messrs. Styler, Fray & Whittingham announce that owing to re-naming of their office street, communications should be addressed to them at 1, Central Street, Manchester, 2.

Messrs. D. P. Newell, Wright & Co., Incorporated Accountants, have removed their offices at Kidderminster and Bridgnorth to Worcester Cross Chambers, Oxford Street, Kidderminster, and 3, East Castle Street, Bridgnorth, respectively.

Messrs. L. H. Benten & Co. announce that their address is now The Guild House, Water Lane, Bishop's Stortford, Herts.

Mr. Ernest Rukin, Incorporated Accountant, announces a change of address to 60, Woodhall Drive, Vesper Road, Leeds, 5.

Messrs. Alban & Lamb, Incorporated Accountants, have removed their Cardiff office to 28 and 30, Churchill Way, Cardiff.

Messrs. Mullens and Robinson announce that, having obtained additional accommodation at 73, Station Road, Port Talbot, they have given up their office at 36, Station Road.

Mr. Albert D. Driver, Incorporated Accountant, announces that the address of his office is now Devonshire House, 9, Devonshire Street, Keighley.

Messrs. S. Frank & Co., Incorporated Accountants, have removed to 312-315, Geneva House, Parliament Street, Cape Town.

Messrs. Chown & Robins, Incorporated Accountants, have removed their offices to 58, Morrab Road, Penzance.

OBITUARY

William Luke White

It is with deep regret that we report the sudden death on March 10 of Mr. W. L. White, F.S.A.A., President of the Society of Incorporated Accountants in Ireland.

Mr. White became a member of the Society in 1914, after taking honours in both Intermediate and Final Examinations. His first years in the profession were spent at Birmingham, but before qualifying he had entered the service of Messrs. Atkins, Chirnside & Co., Cork. At the time of his death he was senior partner in the firm.

Mr. White was elected to the Committee of the Irish Branch in 1934. He became President in 1940 and again in 1951. He was one of the Society's representatives on the Committee on Company Law Reform in the Republic of Ireland.

He was a past-President of Cork Rotary Club. As a keen sportsman, he had held the offices of honorary treasurer and vice-president of Cork County Cricket Club, and had served as a member of the Irish International Hockey Selection Committee, and as umpire at international matches.

Herbert Bray

We regret to announce the death on February 13 of Mr. Herbert Bray, F.S.A.A., senior partner in Messrs. Fredk. and C. S. Holliday, Incorporated Accountants, Leeds. He was admitted to partnership in 1937, but was already associated with the firm before qualifying as an Incorporated Accountant in 1920.

Many members of the Incorporated Accountants' District Society of Yorkshire will remember the valuable work carried out by Mr. Bray when for some years he was an active member of their Committee.

William Pascal Keeling

We record with regret that Mr. W. P. Keeling, F.S.A.A., senior partner in Messrs. Keeling & Co., Incorporated Accountants, London, died on March 7 at the age of 78. Mr. Keeling was already in practice in London when he passed the Society's Final Examination: he became a member in 1903 and was advanced to Fellowship in 1909.

His wise counsel will be sorely missed by his friends in the profession and in the British Paper Box Federation, of whose London and South-Eastern region he was secretary for the last forty years.

The funeral service took place on March 10 at St. Andrew's Church, London, N.10.